Reporting on Revenue from Non-Exchange Transactions in Public Sector Accounting

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Abstract: *Financial reporting on revenue from non-exchange transactions belongs to the specific problems of public sector accounting. The article deals with requirements for the financial reporting on revenue from non-exchange transactions that need to be considered in recognizing and measuring revenue from non-exchange transactions. The basis problems of determination of these requirements are specified in the appropriate International Public Sector Accounting Standards. The financial reporting on revenue from non-exchange transactions by public sector entities is useful to enhance the transparency of general purpose financial statements and provide transparent information that is useful for accountability and decision-making purposes.*

Keywords: *Public Sector, Financial Reporting, Revenue, Non-Exchange Transactions*

JEL codes: M40, M41, H83

1 Introduction

Specific issues of financial reporting by public sector entities include revenue from non-exchange transactions. Revenue from non-exchange transactions (taxes and transfers) represents a large part of the revenue of most public sector entities. Under IPSAS standards that have been issued to date, basic issues of recognizing, measurement, reporting and disclosure of revenue from non-exchange transactions are set out in IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers).

The IPSAS 23 set out requirements for the financial reporting on revenue from non-exchange transactions, other than non-exchange transactions from a combination of entities. The IPSAS 23 also addresses the issues that need to be considered in reporting and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the public sector entity on its own account (Kordošová, 2016). Revenue received by public sector entities are the result of both exchange and non-exchange transactions, but most of government and other public sector revenue typically arise from non-exchange transactions, which are:

- taxes, and
- transfers (cash or non-cash) including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in kind, and the off-market portion of concessionary loans received.

Non-exchange transactions are transactions that are not exchange transactions. In the non-exchange transaction, public sector entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange (IFAC, 2018a). For some transactions, there is an exchange for approximately equal value and in this case the exchange transactions are the subject of IPSAS 9, Revenue from Exchange Transactions. Under IPSAS 9, exchange transactions are transactions in which one public sector entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

The aim of this paper is to explore detailed knowledge of the specific issues of financial reporting on revenue from non-exchange transactions by public sector entities, in particular requirements for the definition and classification of non-exchange transactions, analysis of the stipulations for the transfer of assets that may be conditions or restrictions, analysis of the initial inflow of resources from non-exchange transactions, determination the criteria for the recognition of assets, revenue and liabilities relating to non-exchange transactions, and specification of disclosure of revenue from non-exchange transactions in the notes to the general purpose financial statements.

2 Methodology and Data

The intention of this paper is to explore detailed knowledge of the specific issues of financial reporting on revenue from non-exchange transactions by public sector entities. Relevant International Public Sector Accounting Standards cover these issues. We applied epistemology as a basic method for researching this issue. Standard research methods, such as selection, analysis, and synthesis, presenting basic methodical approach to paper processing are applied. We combined the obtained knowledge to form new, higher level of knowledge of research issues. Ways of understanding and explaining the criteria for the recognition of assets, revenue and liabilities relating to non-exchange transactions, the inductive-deductive and analytic-synthetic logical scientific methods are used. In the conclusion, we stated opinions, in which we highlighted the importance of the financial reporting on revenue from non-exchange transactions by public sector entities that is useful to enhance the transparency of general purpose financial statements and provide transparent information that is useful for accountability and decision-making purposes. The researched object that is financial reporting on revenue from non-exchange transactions by public sector entities was chosen because of its timeliness and dynamic development. We got information about the researched object from book and journal sources, conference proceedings and from our own previous knowledge of the research activities. We have worked with the current literature published in 2018, which was mainly in English. This literature is listed in the references section. The above issue deals mainly with provisions of relevant International Public Sector Accounting Standards that are listed in the Handbook of International Public Sector Accounting Pronouncements, which was published in 2018 on the IFAC website and was divided into two volumes (IFAC, 2018a), (IFAC, 2018b). We also used knowledge from articles in scientific journals and conference proceedings (Juhászová et al., 2014), (Kordošová, 2016), (Ondrušová, 2016), (Pakšiová, 2016), and (Šlosárová, 2016). The knowledge gained forms the basis for the processing of results and conclusions.

3 Results and Discussion

In case of non-exchange transactions, it is necessary to know the stipulations for the transfer of assets. The transfer of assets can be done with the expectation or understanding that they will be used in a certain way and that the receiving entity will act and perform in a certain way (Juhászová et al., 2014). Where the laws, regulations or binding agreements with external parties prescribe the requirements for the use of the transferred assets by the recipients, these requirements are defined in the IPSAS 23. The main feature of the stipulations for the transfer of assets is that public sector entity cannot impose the stipulations on itself directly or through its controlled entity. Stipulations relating to the transfer of assets may be conditions or restrictions. Conditions and restrictions may require that public sector entity to use and consume future economic benefits or service potential for a purpose on initial recognition, but only conditions require that future economic benefits or service potential be recovered to the transferor in the event of a breach of the stipulation (obligation to return).

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor (IFAC, 2018a). Condition on transferred assets cause an existing liability upon initial recognition, which is recognized as a liability in accordance with IPSAS 23.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified (IFAC, 2018a). Restrictions on transferred assets does not require that the transferred asset or other future economic benefits or service potential is to be returned to the transferor if the asset is not used in accordance with the intended purpose. For that reason, gaining control of the asset that is subject to the restriction does not impose on the recipient the existence of an existing obligation to transfer future economic benefits or service potential to third parties when it begins to control the asset.

In deciding whether a stipulation is a condition or a restriction, it is necessary to consider the substance of the requirements of the stipulations and not just their form, that is to apply substance over form. The requirement that, for example, the transferred asset is consumed by the provision of goods and services to third parties or is returned to the transferor is required, is not in itself enough to create a liability when the public sector entity begins to control the asset. In deciding whether a stipulation is a condition or restriction, the public sector entity considers whether the requirement for return of assets or future economic benefits or service potential is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement for return of assets or future economic benefit or service potential, the stipulations would not meet the definition of the condition and would be considered a restriction.

In the case of non-exchange transactions, an analysis of the initial inflow of resources from non-exchange transactions is very important. The public sector entity recognizes the asset from non-exchange transaction when it starts to control assets that meet the definition of an asset and meet the criteria for recognizing assets. In some cases, the carrying amount of a previously recognized liability may decrease, for example, when a liability is denied by the lender, and then public sector entity reduces the carrying amount of the liability instead of recognizing the asset. In some cases, gaining control of assets may also imply obligations that the public sector entity recognizes as a liability. Contributions from owners do not generate revenue, so each type of transaction must be analysed and all contributions from owners must be accounted for separately. In accordance with the approach set out in IPSAS 23, public sector entities analyse non-exchange transactions to determine which elements of general purpose financial statements will be reported because of a transaction.

IPSAS 23 sets out the criteria for the recognition of assets, revenue and liabilities relating to non-exchange transactions.

Assets are defined in IPSAS 1 as resources controlled by an entity because of past events, and from which future economic benefits or service potential are expected to flow to the entity. An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when (Šlosárová, 2016):

- it is probable that the future economic benefits or service potential associated with the asset will flow to the entity, and
- the fair value of the asset can be measured reliably.

Assets acquired from non-exchange transaction will be initially measured at its fair value at the acquisition date (Ondrušová, 2016).

An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow (IFAC, 2018a).

When public sector entity satisfies an existing obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the recognized liability and recognize an amount of revenue equal to that reduction.

When public sector entity recognizes an increase in net assets because of a non-exchange transaction, it recognizes revenue. If public sector entity has recognized a liability in respect of the inflow of resources from the non-exchange transaction, and subsequently reduces the liability related to taxable event or condition, it recognizes revenue. If an inflow of resources meets the definition of contributions from owners, it is not recognized as a liability or revenue.

The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that public sector entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognized when the goods or services are provided.

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by public sector entity. When public sector entity recognizes an asset because of a non-exchange transaction, it also recognizes revenue corresponding to the amount of the asset measured at its fair value at the acquisition date, unless it is also required to recognize a liability.

Where a liability is required to be recognized, it will be measured at the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets will be recognized as revenue. When a liability is subsequently reduced due to the occurrence of the taxable event or the settlement of the condition, the amount of the reduction in the liability will be recognized as revenue.

The estimate takes account of the risks and uncertainties associated with the events causing the liability to be recognized (Pakšiová, 2016). Where there is a material impact on the time value of the liability, the liability is measured at the present value of the amount expected to be required to settle the obligation in accordance with the requirements set out in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

Public sector entity shall disclose in the general purpose financial statements, or publish in the notes to the general purpose financial statements the following information (IFAC, 2018a):

- the amount of revenue from non-exchange transactions recognized during the period by major classes showing separately taxes by major classes of taxes, and transfers by major classes of transfer revenue,
- the number of receivables recognized in respect of non-exchange revenue,
- the amount of liabilities recognized in respect of transferred assets subject to conditions,
- the amount of assets recognized that are subject to restrictions and the nature of those restrictions,
- the existence and amounts of any advance receipts in respect of non-exchange transactions, and
- the amount of any liabilities forgiven.

Public sector entity shall disclose in the notes to the general purpose financial statements the following information (IFAC, 2018a):

- the accounting policies adopted for the recognition of revenue from non-exchange transactions,
- the basis on which the fair value of inflowing resources was measured for major classes of revenue from non-exchange transactions,

- information about the nature of the tax for major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, and
- the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

Conclusions

The aim of this paper was to explore detailed knowledge of the specific issues of financial reporting on revenue from non-exchange transactions by public sector entities, in particular requirements for the definition and classification of non-exchange transactions, analysis of the stipulations for the transfer of assets that may be conditions or restrictions, analysis of the initial inflow of resources from non-exchange transactions when public sector entities decide whether resources meet the definition of assets and meet the criteria for recognition as assets, and when they are satisfied, public sector entities decide whether the liability is recognized, also determination the criteria for the recognition of assets, revenue and liabilities relating to non-exchange transactions, and specification of disclosure of revenue from non-exchange transactions in the notes to the general purpose financial statements. The result of examination of that topic is a comprehensive overview of knowledge about the requirements for financial reporting on revenue from non-exchange transactions. Based on our research results, we stated the opinions that the financial reporting on revenue from non-exchange transactions by public sector entities is useful to enhance the transparency of general purpose financial statements and provide transparent information that is useful for accountability and decision-making purposes.

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