



DISCUSSION PAPER 7

**ASSETS AND LIABILITIES ARISING FROM NON-
CONTRACTUAL ARRANGEMENTS THAT HAVE THE
FEATURES OF FINANCIAL INSTRUMENTS**

SUPPLEMENTARY INFORMATION



Table 1 – Analysis of research into the treatment of taxes in other countries, including requirements in existing Standards of GRAP

TAXES	South Africa	New Zealand (include levies, fines and social benefit receivables that do not arise out of a contract)	Australia (all statutory charges)	Canada	United States	United Kingdom (includes duties)
Source:	GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)	Treasury instruction 2010	Finance Minister's Orders for Financial Reporting AASB 1004 Contributions	PS 3510 Tax Revenue	Standards issued by GASB (local authorities) and FASAB (federal government)	Financial Reporting Manual (FReM) issued by the HM Treasury
Contractual or non-contractual	Preliminary view to be formulated in Discussion Paper.	Non-contractual	Non-contractual (Minister's Orders)	Not specific	Not specific	Not specific
Initial recognition	Taxable event occurs and asset recognition criteria are met: <ul style="list-style-type: none"> probability of asset being received; and fair value of asset can be measured. 	Specific points identified for specific types of revenue.	<u>Ministers' Orders</u> Not specific. <u>AASB 1004:</u> Recognised when control obtained, it is probable that economic benefits will flow and the amount of the contributions can be measured reliably.	When tax is "authorised", which is the earlier of the legislation is approved or, the ability to assess and collect tax has been provided through legislative convention; and the taxable event has occurred.	<u>GASB:</u> Real estate tax: When taxes levied i.a.w legislation. Other taxes: When underlying transaction takes place. <u>FASAB:</u> Recognised when taxpayers have agreed the amount owed or a court has determined the assessments owed.	<u>Taxes:</u> Taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the collecting entity. <u>Fines and penalties:</u> Time when penalty imposed.



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<p>Initial measurement</p>	<p>GRAP 23 Fair value of the asset acquired, i.e. fair value of the receivable.</p>	<p>Nominal amount or face value.</p>	<p><u>Minister's Orders:</u> Not specific. (Note: Appropriations, which are also not contractual, are measured at their nominal amounts.) <u>AASB 1004:</u> Income recognised at the fair value of the consideration received or receivable.</p>	<p>Net realisable value. Realisable value is the amount of cash or its equivalent into which an asset is expected to be converted in the due course of operations. It is expected at initial recognition that assets acquired in tax transactions by a government will be cash or cash equivalents, or tax receivables that will be settled in cash or cash equivalents.</p>	<p><u>GASB:</u> Real estate tax: Amounts due in legislation, less rebates and discounts. <u>FASAB:</u> Based on amount agreed or determined.</p>	<p>Where taxes and duties are recorded on the accrual basis, initially measured at the fair value of the consideration received or receivable, net of repayments.</p>
<p>Subsequent measurement</p>	<p>Where estimates of tax receivables changes, apply GRAP 3 on changes in accounting estimates. No specific requirements. Use GRAP 3 and the Framework to formulate an accounting policy.</p>	<p>Adjusted for penalties and interest as they are charged; Tested for impairment.</p>	<p><u>Minister's Orders:</u> Tested for impairment, on an individual basis, using AASB 136 (IAS 36 equivalent) as not a financial instrument. <u>AASB 1004:</u> Not dealt with.</p>	<p>Tax receivables are financial instruments similar to accounts receivable. As each financial statement date, a government would evaluate the extent to which its tax receivables are ultimately collectible and valuation allowances would be used to reflect tax accounts receivable.</p>	<p><u>GASB:</u> Real estate taxes: Provision for uncollectible amounts created, based on whether the amounts collectible for the period are unpaid for the first two months in the next financial year. <u>FASAB:</u> Tax receivables reported net of an allowance for amounts. Allowance based on projections of collectibles from a statistical sample of unpaid tax assessments.</p>	<p><u>Taxes and fines:</u> Measured net of amounts not expected to be collected (determined by reference to past trends in write-offs, remissions, the emerging position in-year, historic debt collection performance) <u>Fines and penalties:</u> If amounts are not collectible, the amounts not collected are recognised as an expense.</p>



Table 2 – Analysis of research into the treatment of taxes in other countries, including requirements in existing Standards of GRAP

APPROPRIATIONS AND GRANTS RECEIVABLE	South Africa (Transfers)	New Zealand (Transfers)	Australia (Appropriations and grants)	Canada	United States (Federal state and other aid)	United Kingdom (Grants)
<i>Source:</i>	<i>GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)</i>	<i>Treasury instruction 2010</i>	<i>AASB 1004 Finance Minister's Orders for Financial Reporting</i>	<i>PS 3410 Government Transfers (Deals with both transfers receivable and payable)</i>	<i>Standards issued by GASB (local authorities)</i>	<i>Financial Reporting Manual (FReM) issued by the HM Treasury – Grants and assistance Standards issued by CIPFA – Government grants and contributions ASB standards for charities – Grants and donations</i>
Contractual or non-contractual	Preliminary view to be formulated in Discussion Paper.	Not specific.	Appropriations: Non-contractual Grants: not specific. (Ministers' Orders)	Not specific.	Not specific.	FReM and CIPFA: Not specific. ASB SORP for Charities: may be contractual
Initial recognition	Transferred asset meets the definition of an asset and satisfy the criteria for recognition as an asset.	An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a	<u>Appropriations:</u> Recognised in the year of appropriation (Ministers' Orders).	<u>Entitlements (transfers made when eligibility criteria met)</u> Receivables recognised for the estimated portions of	<u>GASB:</u> Categorical aid: Recognised, net of estimated disallowances, when eligibility	<u>FReM:</u> IAS 20 <u>CIPFA:</u> When the authority satisfies the conditions of entitlement and there is



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		liability is also recognised in respect of the same inflow.	<p><u>Appropriations, grants and other contributions received.</u></p> <p>Recognised when control obtained, it is probable that economic benefits will flow and the amount of the contributions can be measured reliably. (AASB 1004)</p>	<p>entitlements due but not received.</p> <p><u>Transfers under share cost arrangements (reimbursements of specific expenditure)</u></p> <p>Receivables recognised for the eligible expenditures incurred during the period that the transferring government has agreed to share.</p> <p><u>Grants (made at the discretion of government)</u></p> <p>Receivables recognised for those grants authorised by the transferring government prior to the end of the accounting period but not yet received.</p>	<p>criteria met.</p> <p><u>Unrestricted aid:</u> In year of entitlement.</p>	<p>reasonable assurance that the monies will be received.</p> <p>SORP for charities: Entitlement and fulfilment of conditions.</p>
Initial measurement	Fair value at the date of acquisition.	Fair value at the date of acquisition.	<p><u>Appropriations:</u></p> <p>Nominal amounts (not discounted) = amount specified in legislation. (Ministers' Orders)</p> <p><u>Appropriations, grants and other contributions received.</u></p> <p>Income shall be measured</p>	<p><u>Entitlements (transfers made when eligibility criteria met)</u></p> <p>Allocations specified in legislation or budget documents.</p> <p><u>Transfers under share cost arrangements (reimbursements of specific expenditure)</u></p>	Not specific.	<p><u>FReM:</u> IAS 20</p> <p><u>CIPFA:</u> not specific.</p> <p><u>SORP:</u> not specific.</p>



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			at the fair value of the consideration received or receivable.	Expenses incurred. <u>Grants (made at the discretion of government)</u> Amount authorised.		
Subsequent measurement	No specific requirements. Use GRAP 3 and the Framework to formulate an accounting policy.	Not specific – assume treated as financial instrument as no specific treatment provided (unlike sovereign receivables)	<u>Appropriations:</u> Subsequently adjusted for increases or decreases in appropriations (Ministers' Orders). <u>Appropriations, grants and other contributions received:</u> Subsequently adjusted for changes in estimates.	Not specific. Adjustments of estimates dealt with as changes in estimates.	Not specific.	<u>SORP:</u> lower of cost and net realisable value.