

Accounting Standard for Local Bodies (ASLB) 23
Revenue from Non-Exchange Transactions
(Taxes and Transfers)

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Accounting Standard for Local Bodies (ASLB) 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies¹.)*

The Accounting Standard for Local Bodies (ASLB) 23, 'Revenue from Non-Exchange Transactions (Taxes and Transfers)', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned².

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions including the identification of contributions from owners.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.***

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies'.

3. ***This Standard applies to all entities described as local bodies in the Preface to the Accounting Standards for Local Bodies³.***
4. [Refer to Appendix 1]
5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in ASLB 9, 'Revenue from Exchange Transactions'. While revenues received by local bodies arise from both exchange and non-exchange transactions, the majority of revenue of local bodies is typically derived from non-exchange transactions such as:
 - (a) Taxes; and
 - (b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind.
6. Governments may reorganise the local bodies, merging some local bodies and dividing other entities into two or more separate entities. An entity combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Entity Combinations should be accounted for in accordance with ASLB on 'Entity Combination⁴'.

Definitions

7. ***The following terms are used in this Standard with the meanings specified:***
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.

³ Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

⁴ Formulation of ASLB on this subject is yet to be undertaken. Till that time, paragraph 15 of ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors' may be referred for guidance on accounting policy hierarchy.

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Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Contributions from owners⁵ means inflows of resources to an entity, contributed by external parties in their capacity as owners, towards the corpus of local bodies which establish or increase an interest in the net financial position of the entity.

Exchange transaction is one in which the entity transfers goods or services, or use of assets, and receives some value (primarily in the form of cash, goods, services or has liabilities extinguished) from the other party in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits received or receivable by the entities which are imposed as a consequence of the breach of laws or regulations⁶.

Government refers to government, government agencies and similar bodies whether local, state, national or international.

Grants are transfers to local bodies in the form of assistance by government or other entities in cash or kind with or without conditions.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving any value in exchange, or gives value to another entity without directly receiving any value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used,

⁵ In case of Local Bodies, normally the contribution towards corpus will come from the Central/ respective State Government. However, where local bodies enter into joint ventures/SPVs with other entities, the controlling local body itself may contribute in capacity as owner towards corpus of the controlled entity.

⁶ Fines also encompass penalties.

but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to local bodies, in accordance with laws and/or regulations, established to provide revenue to the local bodies. Taxes do not include fines/ penalties imposed for breach of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Non-Exchange Transactions

8. In some transactions it is clear that there is an exchange of some value. These are exchange transactions and are addressed in ASLB 9, 'Revenue from Exchange Transactions'.
9. In other transactions, an entity will receive resources and provide no consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. While the taxing entity will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.
10. [Refer to Appendix 1]
11. [Refer to Appendix 1]

Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organisation or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.
13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognised as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognised separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognised as an asset, in accordance with ASLB 17, *'Property, Plant and Equipment'*.

Stipulations

14. Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations, as defined in this ASLB. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls. For example, a local body may issue an internal order that the donations received from a particular source will be used for building renovation only. This does not constitute a stipulation under this standard.
15. Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential

embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).

16. Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'* establishes requirements for the recognition and measurement of constructive obligations.

Conditions on Transferred Assets

17. Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognises an asset that is subject to a condition, the recipient also incurs a liability.
18. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity will still recognise the gross amounts in its financial statements, that is, the entity will recognise a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

Restrictions on Transferred Assets

19. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, for example, through an administrative process such as a directive from central or state government, or otherwise. Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

Substance over Form

20. In determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.
21. In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not

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the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.

22. The definition of a condition imposes on the recipient entity a performance obligation – that is, the recipient is required to consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because, in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.
23. To satisfy the criteria for recognition as a liability, it is necessary that an outflow of resources will be probable, and performance against the condition is required and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.
24. In some cases, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. This may occur where, for example, a central/state government provides funds to an entity subject to the stipulation that the entity raise a matching contribution. In these cases, a return

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obligation does not arise until such time as it is expected that the stipulation will be breached, and a liability is not recognised until the recognition criteria have been satisfied.

25. However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard, advance receipt refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with ASLB 9, '*Revenue from Exchange Transactions*'.

Taxes

26. Taxes are the major source of revenue for many local bodies. Taxes are defined in paragraph 7 as economic benefits compulsorily paid or payable to entities, in accordance with laws or regulation, established to provide revenue to the local bodies, excluding fines or other penalties imposed for breaches of laws or regulation. Non-compulsory transfers to the entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A local body levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its powers conferred on it.
27. State/Central tax laws and regulations (a) establish a local body's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. The taxpayer generally provides details and evidence of the level of activity⁷ subject to tax, and the amount of tax receivable by the entity is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the entity receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.
28. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

⁷ The level of activity implies the nature and / or magnitude of activity.

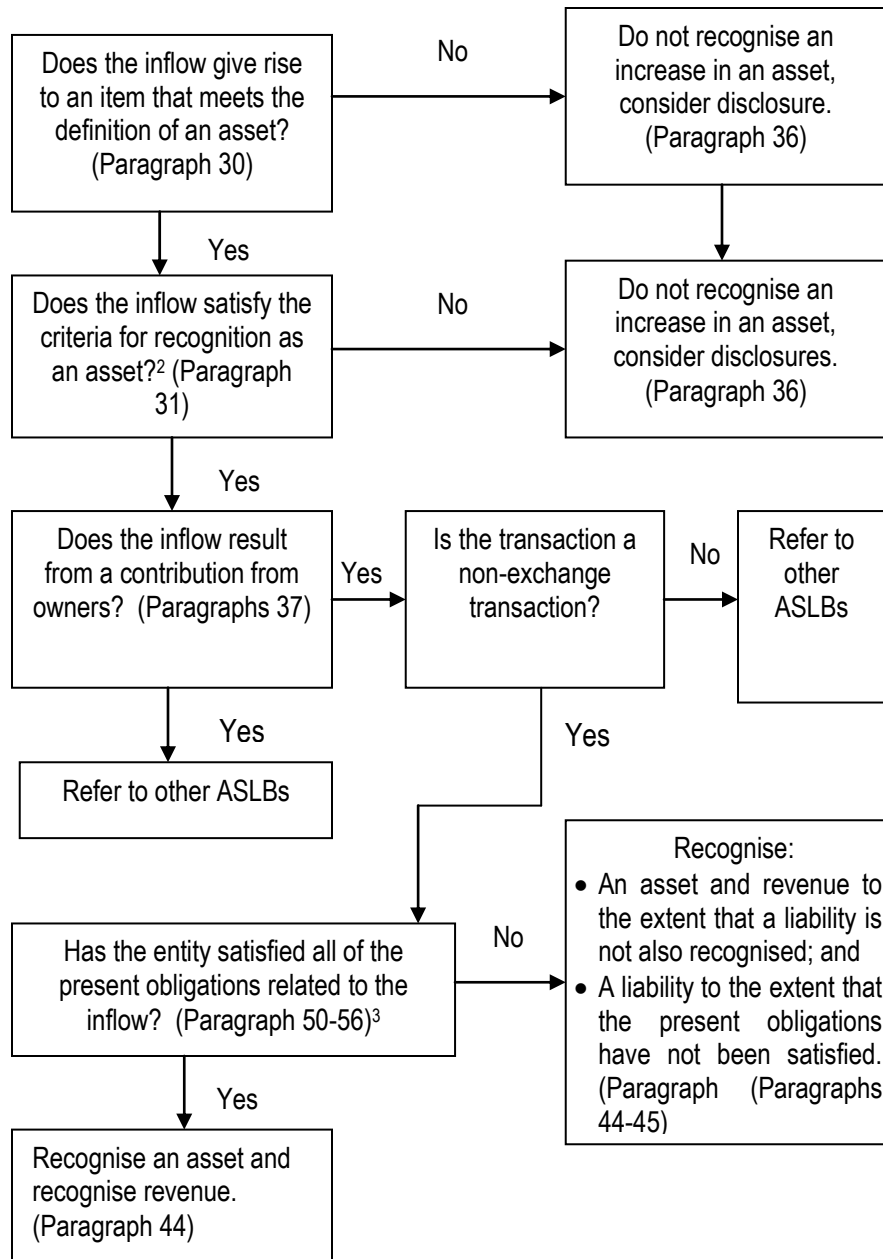
Initial Analysis of the Inflow of Resources from Non-Exchange Transactions

29. An entity will recognise an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognise as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analysed, and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyse non-exchange transactions to determine which elements of general purpose financial statements will be recognised as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises. This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 30-115.

Illustration of the Initial Analysis of Inflows of Resources¹

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1. The flowchart is illustrative only, it does not take the place of the Standards. It is provided as an aid to interpreting this ASLB.
 2. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset, the entity decreases the carrying amount of the liability.
 3. In determining whether the entity has satisfied all of the present obligations, the application of the definition of “conditions on a transferred asset”, and the criteria for recognising a liability, are considered.

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Recognition of Assets

30. Asset is defined as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential is expected to flow to the entity.
31. ***An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset should be recognised as an asset when, and only when:***
- (a) ***It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and***
 - (b) ***The fair value of the asset can be measured reliably⁸ except for a few transactions that are to be measured at nominal value of ₹ 1/- in accordance with this Standard.***

Control of an Asset

32. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In accordance with paragraph 98, entities may, but are not required, to recognise services in-kind. For example, a local body may have the authority of allotment of use of a city town hall to specific entities based on established rules.
33. An announcement of an intention to transfer resources to an entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school were destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognise an inflow of resources (resources receivable) at the time of the announcement. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding, because the recipient entity cannot exclude or regulate the access of

⁸ Information that is reliable is free from material errors and bias, and can be depended on by users to faithfully represent that it purports to represent or could reasonably be expected to represent.

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the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognise an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

Past Event

34. Local bodies normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

35. An inflow of resources is “probable” when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor. For example, where (a) a government agrees to transfer funds to a local body (reporting entity), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

36. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset to be dealt with in ASLB 19, *‘Provisions, Contingent Liabilities and Contingent Assets’*⁹.

Contributions from Owners

37. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in the definition as

⁹ See paragraph 104 of this ASLB for example of contingent asset under non-exchange transaction.

provided in this Standard. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognises it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance on '*Financial Instruments*'¹⁰ when distinguishing liabilities from contributions from owners.

38-41. [Refer to Appendix 1]

Measurement of Assets on Initial Recognition

42. ***An asset acquired through a non-exchange transaction should initially be measured at its fair value as at the date of acquisition except non-monetary transfers (transfer of tangible/intangible assets) that are accounted in accordance with paragraph 43.***
43. Non-monetary transfers (transfer of tangible/intangible assets) such as 'Inventories', 'Investment Property', 'Property, Plant and Equipment' and 'Intangible Asset', acquired through non-exchange transaction should initially be measured at nominal value of Re. 1/-.

Recognition of Revenue from Non-Exchange Transactions

44. ***An inflow of resources from a non-exchange transaction recognised as an asset should be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.***
45. ***As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange***

¹⁰ The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates, and Errors*'.

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transaction recognised as an asset, it should reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction.

46. When an entity recognises an increase in net assets as a result of a non-exchange transaction, it recognises revenue. If it has recognised a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognises revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognised as a liability or revenue.
47. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognised as goods or services are provided.

Measurement of Revenue from Non-Exchange Transactions

48. ***Revenue from non-exchange transactions should be measured at the amount of the increase in net assets recognised by the entity.***
49. When, as a result of a non-exchange transaction, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph 42, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured in accordance with the requirements of paragraph 57, and the amount of the increase in net assets, if any, will be recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

Present Obligations Recognised as Liabilities

50. ***A present obligation arising from a non-exchange transaction that meets the definition of a liability should be recognised as a***

liability when, and only when:

- (a) *It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and*
- (b) *A reliable estimate can be made of the amount of the obligation.*

Present Obligation

- 51. A present obligation is a duty to act or perform in a certain way and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.
- 52. In many instances, taxes are levied and assets are transferred to entities in non-exchange transactions pursuant to laws, regulation or other binding arrangements that impose stipulations that they be used for particular purposes. For example:
 - (a) Taxes, the use of which is limited by laws or regulations to specified purposes;
 - (b) Transfers, established by a binding arrangement that includes conditions:
 - (i) From central governments to local bodies;
 - (ii) From state governments to local bodies;
 - (iii) From local bodies/other entity to other local bodies;
 - (iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
 - (v) From donor agencies to local bodies.
- 53. In the normal course of operations, a reporting entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognised until the taxable event occurs.

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54. If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

Conditions on a Transferred Asset

55. ***Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised in accordance with paragraph 50.***
56. Stipulations are defined in paragraph 7. Paragraphs 14-25 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyses any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities on Initial Recognition

57. ***The amount recognised as a liability should be the best estimate of the amount required to settle the present obligation at the reporting date.***
58. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised in accordance with the principles contained in ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets'.

Taxes

59. ***An entity should recognise an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.***
60. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset set out in paragraph 31. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
61. Taxation revenue arises only for the entity that imposes the tax, and

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not for other entities. For example, where the state government imposes a tax that is collected by its local body, assets and revenue accrue to the state government, not the local body.

62. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the local body being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the local body that can be sold, exchanged, transferred or redeemed.
63. Taxes satisfy the definition of 'non-exchange transaction' because the taxpayer transfers resources to the entity, without receiving directly any value in exchange. While the taxpayer may benefit from a range of services provided by the local bodies, these are not provided directly in exchange as consideration for the payment of taxes.
64. As noted in paragraph 52, some taxes are levied for specific purposes. If the entity is required to recognise a liability in respect of any conditions relating to assets recognised as a consequence of specific purpose tax levies, it does not recognise revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability because the specific purposes amount to restrictions not conditions.

The Taxable Event

65. The reporting entity analyses the taxation law to determine what the taxable event is for the various taxes levied. For example, taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Advance Receipts of Taxes

66. Consistent with the definitions of 'assets', 'liabilities' and the requirements of paragraph 59, resources for taxes received prior to the occurrence of the taxable event are recognised as an asset and a liability (advance receipts), because (a) the event that gives rise to

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the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied (see paragraph 59), notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognised until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognised.

Measurement of Assets Arising from Taxation Transactions

67. Paragraph 42 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the entity, and the fair value of the resultant assets.
68. Where there is a separation between the timing of the taxable event and collection of taxes, entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers and the relationship of taxation receivable to other events in the economy. Measurement models will also take account of other factors such as:
- (a) The tax law allowing taxpayers a longer period to file returns than the entity is permitted for publishing general purpose financial statements;
 - (b) Taxpayers failing to pay tax on a timely basis;
 - (c) Valuing non-monetary assets for tax assessment purposes;
 - (d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

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- (e) The potential that the financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the entity may outweigh the benefits received; and
 - (f) The tax law permitting taxpayers to defer payment of some taxes.
69. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.
70. In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognised in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of a new tax because the authority to levy the tax might get established well beyond the reporting period because of underlying disputes on the validity of the tax itself. Consequently the recognition criteria may not be satisfied until payment is received or receivable.

Expenses Paid Through the Tax System and Tax Expenditures

71. ***Taxation revenue should be determined at a gross amount. It should not be reduced for expenses paid through the tax system.***
72. The local body uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another

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payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, local body may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by cheque or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently this amount is an expense of the entity and should be recognised separately in the statement of income and expenditure. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

73. ***Taxation revenue should not be grossed up for the amount of tax expenditures.***
74. Local body may use the tax system to encourage certain financial behavior and discourage other behavior. For example, a local body allows a rebate of 10% to tax payers who pay property tax before a date as specified by the local body. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing entity.
75. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. ASLB 1, '*Presentation of Financial Statements*', prohibits the offsetting of items of revenue and expense unless permitted by another Standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Transfers

76. ***Subject to paragraph 98, an entity should recognise an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.***

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77. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing any value in exchange, and are not taxes as defined in this Standard.
78. Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset prescribed in paragraph 31. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset as a result of the transfer, the entity decreases the carrying amount of the liability.
79. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, assets, liabilities, and/or revenue will be recognised. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.
80. Transfers of resources that satisfy the definition of 'contributions from owners' will not give rise to revenue.
81. Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing any value directly in exchange. If an agreement stipulates that the recipient entity is to provide some value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under ASLB 9, '*Revenue from Exchange Transactions*'.
82. An entity analyses all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition except non-monetary transfers (transfer of tangible/intangible assets) that are recorded at nominal value of Re. 1/-. Entities develop accounting policies for the recognition and measurement of assets that are consistent with ASLBs.

Debt Forgiveness and Assumption of Liabilities

84. Lenders will sometimes waive their right to collect a debt owed by an entity, effectively canceling the debt. For example, Central Government may cancel a loan owed by a local body. In such circumstances, the local body recognises an increase in net assets because a liability it previously recognised is extinguished.
85. Entities recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.
86. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 37–38.
87. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

88. Fines are economic benefits or service potential received or receivable by an entity, from an individual or other entity, as determined by a statutory or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some cases, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognised as a fine.

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89. Fines normally require an individual /another entity to transfer a fixed amount of cash to the entity, and do not impose on the entity any obligations which may be recognised as a liability. As such, fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 31. As noted in paragraph 12, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

90. A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate.
91. Bequests which satisfy the definition of an asset are recognised as assets when it satisfies the recognition criteria as prescribed in Paragraph 31. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.
92. The bequeathed assets should be measured in accordance with the paragraph 83.

Gifts and Donations, including Goods In-kind

93. Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98-103 below.

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- 94. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organisations often includes a component of goods in-kind.
- 95. Gifts and donations (other than services in-kind) are recognised as assets and revenue when it satisfies the recognition criteria as prescribed in paragraph 31. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.
- 96. Goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.
- 97. Paragraph 83 prescribes the measurement principle for gifts and donations including goods in-kind.

Services In-kind

- 98. ***An entity may, but is not required to, recognise services in-kind as revenue and as an asset.***
- 99. Services in-kind are services provided by individuals to entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognised to reflect the consumption of these services in-kind. For example, a municipal school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognise an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognise an expense for the consumption of services in-kind. However, services in-kind may also be utilised to construct an asset, in which case the amount

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recognised in respect of services in-kind is included in the cost of the asset being constructed.

100. Local bodies may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest, for example:
- (a) Technical assistance from other governments or international organisations;
 - (b) Persons convicted of offenses may be required to perform community service for a local body;
 - (c) Municipal hospitals may receive the services of volunteers;
 - (d) Municipal schools may receive voluntary services from parents as teachers' aides or as board members; and
 - (e) Local bodies may receive the services of volunteer fire fighters.
101. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.
102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some entities, the services provided by volunteers are not material in amount, but may be material by nature.

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103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognise those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognise a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

104. Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognise pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognised as a gift or donation, in accordance with paragraphs 93–97 above. Pledges may warrant disclosure as contingent assets under the requirements of ASLB 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Advance Receipts of Transfers

105. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognise an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognised until the event that makes the transfer arrangement binding occurs and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognised.

105A-B. [Refer to Appendix 1]

Disclosures

106. ***An entity should disclose either on the face of, or in the notes to, the general purpose financial statements:***
- (a) ***The amount of revenue from non-exchange transactions recognised during the period by major classes showing separately:***
 - (i) ***Taxes, showing separately major classes of taxes; and***
 - (ii) ***Transfers, showing separately major classes of transfer revenue.***
 - (b) ***The amount of receivables recognised in respect of non-exchange revenue;***
 - (c) ***The amount of liabilities recognised in respect of transferred assets subject to conditions;***
 - (cA) [Refer to Appendix 1]
 - (d) ***The amount of assets recognised that are subject to restrictions and the nature of those restrictions;***
 - (e) ***The existence and amounts of any advance receipts in respect of non-exchange transactions; and***
 - (f) ***The amount of any liabilities forgiven.***
107. ***An entity should disclose in the notes to the general purpose financial statements:***
- (a) ***The accounting policies adopted for the recognition of revenue from non-exchange transactions;***
 - (b) ***For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;***
 - (c) ***For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax;***

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- (d) ***The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and***
 - (e) ***The nature and extent of grants received from the government and other entities separately, recognised in the financial statements, including grants of non-monetary assets.***
108. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.
109. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in ASLB 1, '*Presentation of Financial Statements*', which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.
110. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's exposure to particular revenue streams.
111. Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of (a) the amount of liabilities recognised in respect of conditions, and (b) the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 106(c).
112. Paragraph 106(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgements about the entity's future revenue and net asset position.
113. As noted in paragraph 68, in many cases an entity will be able to reliably measure assets and revenue arising from taxation

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transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgements about the entity's future revenue and net asset position.

114. Paragraph 107(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgements about the entity's future revenue and net asset position.
115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

116- 125. [Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of ASLB 23.

Measurement, Recognition and Disclosure of Revenue from Non- Exchange Transactions — Examples

Example 1: Property Tax (Paragraph 65)

1. A Local body levies a tax of one percent of the assessed value of all property within its jurisdiction. The Local Body's reporting period is April 1 to March 31. The tax is levied on April 30, with notices of assessment being sent to property owners in April, and payment due by May 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of two percent per month of the amount outstanding. The tax law permits the local body to seize and sell a property to collect outstanding property taxes.
2. The local body controls a resource—property taxes receivable—when the taxable event occurs, which is the passing of the date on which the taxes are levied—April 30. The government recognises assets and revenue in the general purpose financial statements of the reporting period in which that date occurs. At this stage, the penalty is not recognised.

Example 2: Grant received from Government for General Purposes (Paragraphs 14 - 16, 76)

3. The central government (transferor) makes a grant of ₹ 10 lakhs to a local body in a socio-economically deprived area. The local body is required under its constitution to undertake various social programs; however it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant. The Local Body is required to prepare and present audited general purpose financial statements.
4. There are no stipulations attached to these grants, and no performance obligation, so the transfers are recognised as assets and revenue in the general purpose financial statements of the reporting period in which they are received or receivable by the local body.

Example 3: Transfer with Stipulations that do not satisfy the Definition of a Condition (Paragraphs 20 – 25)

5. The central government makes a cash transfer of ` 50 lakhs to a local body's school specifying that it:
- (i) increases the stock of school housing by an additional 10 units over and above any other planned increases; or
 - (ii) uses the cash transfer in other ways to support its school housing objectives.

If neither of these stipulations is satisfied the recipient entity must return the cash to the central government.

6. The local body recognises an increase in an asset (cash) and revenue in the amount of ` 50 lakhs. The stipulations in the transfer agreement are stated so broadly as to not impose on the recipient a performance obligation—the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer.

Example 4: Transfer to a Municipal Education Institution with Restrictions (Paragraphs 19 and 76)

7. The government (transferor) transfers 200 hectares of land in a major city to a Municipal Education Institution (reporting entity) for the establishment of a Municipal Education Institution campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.
8. The Municipal Education Institution recognises the land as an asset in the balance sheet of the reporting period in which it obtains control of that land. The land should be recognised at its nominal value of Re. 1/-. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the Municipal Education Institution recognises revenue in respect of the land in the statement of income and expenditure of the reporting period in which the land is recognised as an asset.

Example 5: Grant to Local Body with Conditions (see paragraphs 17 - 18)

9. The government (transferor) grants ₹ 1,000 lakhs to a local body (reporting entity) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 50 percent for existing transport system modernisation, 50 percent for new transport systems. Under the terms of the grant, the money can only be used as stipulated and the local body is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the government.
10. The local body recognises the grant money as an asset. The local body also recognises a liability in respect of the condition attached to the grant. As the local body satisfies the condition, that is, as it makes authorised expenditures, it reduces the liability and recognises revenue in the statement of income and expenditure of the reporting period in which the liability is discharged.

Example 6: Debt Forgiveness (Paragraphs 84 - 87)

11. The government (transferor) lent a local body (reporting entity) ₹ 200 lakhs to enable the local body to build a water treatment plant. After a change in policy, the government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The government writes to the local body and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.
12. When it receives the letter and documentation from the government, which communicates this decision, the local body de-recognises the liability for the loan and recognises revenue in the statement of income and expenditure of the reporting period in which the liability is de-recognised.

Example 7: Proposed Bequest (Paragraphs 90 - 92)

13. A 66-year-old citizen (transferor) names the local body (reporting entity) as the primary beneficiary in her will. This is communicated to the local body. The citizen is unmarried and childless and has an estate currently valued at ₹ 5,00,000.

14. The local body does not recognise any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transferor), which has not occurred. In other words, the proposed bequest can only be recognised on happening of the past event, i.e., the death of the transferor.

Example 8: Pledge – Television Appeal for Municipal Hospital (Paragraph 104)

15. On the evening of March 31, 20X5 a local television station conducts a fund raising appeal for a municipal hospital (reporting entity). The annual reporting date of the municipal hospital is March 31. Television viewers telephone or e-mail promising to send donations of specified amounts of money. At the conclusion of the appeal, ₹ 20 lakhs has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.
16. The municipal hospital does not recognise any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources, therefore, it cannot recognise the asset or the related revenue until the donation is binding on the donor.

Example 9: Fine (Paragraph 88 – 89)

17. A company is found guilty of polluting surroundings of municipal limits. As a penalty it is required to clean up the pollution and to pay a fine of ₹ 50 lakhs. The company is in sound financial condition and is capable of paying the fine. The company has announced that it will not appeal the case.
18. The local body (reporting entity) recognises a receivable and revenue of ₹ 50 lakhs in the general purpose financial statements of the reporting period in which the fine is imposed.

Example 10: External Assistance Recognised (Paragraph 76 - 82)

19. Local Body (reporting entity) enters into an external assistance agreement with world bank which provides Local Body with

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development assistance grants to support Local Body's health objectives over a two year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by Local Body. Local Body measures the fair value of the development assistance at ` 50 lakhs.

20. When the external assistance agreement becomes binding, Local Body recognises an asset (a receivable) for the amount of ` 50 lakhs, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There are no conditions attached to this agreement that require the entity to recognise a liability.

Example 11: Revenue of Local Body (Paragraphs 76, 93 - 97)

21. Local Body relies on funding from a group of governments. The governments have signed a formal agreement, which determines the percentage of Local Body's approved budget that each government will fund. Local Body can only use the funds to meet the expenses of the budget year for which the funds are provided. Local Body's financial year begins on April 1. Local Body's budget is approved in the preceding December and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time.
22. For the budget year 2009-10, the profile of amounts and timing of payments was as follows:

	(` Lakhs)
Budget approved December 24, 2008	55
Amount invoiced January 4, 2009	55
Transfers received as at March 31, 2009	15
Transfers received during 2009-10	38
Amount not received by March 31, 2010 and unlikely to be received	2

23. In 2008-09, Local Body recognises an asset of ` 15 lakhs for the amount of transfers received before the start of 2009-10, because it

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has control over an asset when the transfer is received and deposited in its bank account. An equivalent ₹ 15 lakhs liability, revenue received in advance, is recognised.

24. In 2009-10, Local Body recognises ₹ 53 lakhs of revenue from transfers. In the notes to its general purpose financial statements, it discloses that ₹ 55 lakhs was invoiced and an allowance for doubtful debts of ₹ 2 lakhs was established.

Example 12: Disclosure of Services In-kind not Recognised (Paragraphs 98 - 102, 108)

25. A municipal hospital's (reporting entity) accounting policies are to recognise voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organised program. The principal aim of the program is to expose volunteers to the hospital environment and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The municipal hospital does not pay the volunteers nor would it engage employees to perform volunteers' work if volunteers were not available.
26. The hospital analyses the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognise the services in-kind provided by the volunteers. The hospital discloses the number of hours of

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service provided by volunteers during the reporting period and a description of the services provided.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 23 and the corresponding International Public Sector Accounting Standard (IPSAS) 23, 'Revenue from Non-Exchange Transactions (Taxes and Transfers)'.

Comparison with IPSAS 23, 'Revenue from Non-exchange transactions (Taxes and Transfers)'

1. Different terminologies have been used in ASLB 23 as compared to corresponding IPSAS 23, e.g., the terms 'statement of income and expenditure' and 'entity combination' have been used in place of 'statement of financial performance' and 'public sector combination' respectively.
2. The following paragraphs of IPSAS 23 have been deleted. In order to maintain consistency with the corresponding IPSAS 23, the paragraph numbers have been retained:
 - (I) Paragraph 4 of IPSAS 23 provides that Government Business Enterprises (GBEs) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India.
 - (II) Off-market portion of concessionary loans received would fall under the category 'exchange transactions' as per the requirements of ASLB 9, 'Revenue from Exchange Transactions'. Therefore, paragraphs 10-11 and 105A-B have been deleted.
 - (III) Paragraphs 39-41 relating to exchange and non-exchange components of a transaction have been deleted because these may not be relevant as the exchange and non-exchange transactions have been defined differently in ASLBs than in IPSASs.
 - (IV) Paragraphs 116-123 pertaining to transitional provisions have been deleted as a separate ASLB 33, 'First-time Adoption of ASLBs' has been issued that contains all transitional provisions at one place.
 - (V) Paragraphs 124-125 pertaining to effective date have been

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deleted as ASLB 23 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

3. The following paragraphs of IPSAS 23 have been amended to make the same more relevant in the context of Local Bodies in India:
 - (I) The definitions of 'contribution from owners', 'exchange transactions' and 'non-exchange transactions' have been modified and the definitions of 'government' and 'grants' have been included. (paragraph 7)
 - (II) Criteria for recognition of assets has been modified. An exception to measure fair value has been inserted in case of transactons that are measured at Re. 1/- in accordance with this Standard. (paragraph 31)
 - (III) Initial measurement of non-monetary transfer (transfer of tangible/intangible assets) has been modified to measure the same at nominal value of Re. 1/-. (paragraph 42 & 43)
 - (iv) The requirement to measure the liability at the present value of the amount expected to be required to settle the obligation where the time value of money is material, has been removed. (paragraph 58)
 - (v) An additional disclosure of the nature and extent of grants received from the government and other entities that are recognised in the financial statements, in the notes to the general purpose financial statements, has been included (paragraph 107(e)).
4. Paragraph 3 of IPSAS 23 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provisions pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.
5. Some examples of IPSAS 23 have been deleted/ included in ASLB 23, and some examples have been modified in light of Indian conditions. (refer paragraphs 14, 32, 38, 61, 65, 70 & 74)
6. Consequential changes resulting from the above departures have been made in ASLB 23.

