STATUTORY BOARD FINANCIAL REPORTING STANDARD

SB-FRS 1001

Accounting and Disclosure for Non-Exchange Revenue

SB-FRS 1001 *Accounting and Disclosure for Non-Exchange Revenue* applies to Statutory Boards from annual periods beginning on or after 1 January 2022. Earlier application is permitted.

Contents

paragraphs

Statutory Board Financial Reporting Standard SB-FRS 1001 *Accounting and Disclosure for Non-Exchange Revenue* is set out in paragraphs 1-43 and Annexes A and B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. The Standard should be read in the context of its objective, the *Preface to Statutory Board Financial Reporting Standards* and the *SB-FRS Conceptual Framework for Financial Reporting*. SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide a basis for selecting and applying accounting policies in the absence of explicit guidance.

The principles in SB-FRS 1001 have been adapted from International Public Sector Accounting Standards IPSAS 23 Revenue from Non-Exchange Transaction (Taxes and Transfers).

Statutory Board Financial Reporting Standard (SB-FRS) 1001 Accounting and Disclosure for Non-Exchange Revenue

Objective

1. The objective of this Standard is to specify the financial reporting requirements for non-exchange revenue received by Statutory Boards (SBs).

Scope

2. This Standard addresses revenue arising from non-exchange transactions, except for Government Grants (see SB-FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, SB-FRS Guidance Note 1 *Accounting and Disclosures for Funds, Grants, Accumulated Surplus and Reserves* and SB-FRS Guidance Note 3 *Accounting and Disclosures for Trust Funds*).

3. Revenue arising from exchange transactions is addressed in SB-FRS 115 *Revenue from Contract with Customers* and SB-FRS Guidance Note 7 *Accounting for Sponsorships Received*.

Definitions

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

   <u>Conditions on transferred assets</u> are stipulations that specify that the future economic benefits embodied in the asset is required to be consumed by the recipient as specified or future economic benefits must be returned to the transferor.

   <u>Control of an asset</u> 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.

   <u>Restrictions on transferred assets</u> are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits is required to be returned to the transferor if not deployed as specified.

   <u>Stipulations on transferred assets</u> are terms in laws or regulations, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the SBs.

   Terms defined in other SB-FRSs are used in this Standard with the same meaning as in those Standards.

Accounting for Non-Exchange Revenue

Non-Exchange Revenue

5. Revenues received by SBs arise from both exchange and non-exchange transactions. Where there is an exchange of approximately equal value, these are exchange transactions and are addressed in other SB-FRSs, INT SB-FRSs and SB-FRS Guidance Notes.

6. When a SB receives resources and provide no or nominal consideration directly in return, these are clearly non-exchange revenue transactions and are addressed in this Standard. Some examples of non-exchange revenue are taxes, levies, fines and penalties, donations, etc.

7. Taxes (such as income tax, property tax) are levied through legislation (i.e. laws and/or regulations). Taxpayers pay taxes because the tax law mandates the payment of those taxes. While the government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.

8. Levies (such as aviation levy) are imposed on entities in accordance with legislation. These levies may be paid or payable to the SBs.

9. Fines and penalties are economic benefits received or receivable by the SBs, as determined by a court of law or other law enforcement body, as a consequence of a breach of laws or regulations.

10. Donations arise when a SB receives an asset, including the right to receive cash or other forms of asset without directly providing approximately equal value to the giving party or parties. Donations include transfers of cash and other assets, services and promises to give. The distinguishing characteristic of donations as compared to other forms of non-exchange transactions is that these contributions are voluntary.

11. Donations are generally non-reciprocal transfers. However, there may be instances where nominal consideration is provided by the SBs to the donors. For such donations, where the considerations provided to the donors is significantly lower than that of the donations received, such that it results in an unfair exchange transaction, they should be recognised as donations received.

12. In some instances, SB may enter into a contract with the counterparty. This contract, which may be in the form of an application form, stipulates the terms and conditions that the SB and the other contractual party need to abide. Transactions arising from such contractual agreements will be considered exchange in nature, unless they do not satisfy the criteria of contracts that are within the scope of SB-FRS 115.

13. Taxes, levies, fines and penalties and donations satisfy the definition of non-exchange revenue transaction because the payee transfers resources to the SB, without receiving approximately equal value directly in exchange. In the event where fines and penalties arose from breaches of the terms and conditions of an underlying contract, these fines and penalties are considered exchange revenue because their incurrence are incidental to the contract.

14. Sometimes a transaction is a combination of an exchange and a non-exchange transactions. In such an instance, each component is to be recognised separately based on the substance of the transaction. The exchange component is recognised according to the principles and requirements of other SB-FRSs, INT SB-FRSs and SB-FRS Guidance Notes, whereas the non-exchange component is recognised according to the principles and requirements of this Standard. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

Recognition of Non-Exchange Revenue

15. **An inflow of resources from a non-exchange transaction that meets the definition of asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of that same inflow, when and only when:**

(a) The SB obtains control of the resources or has an enforceable claim to the resources;

(b) It is probable that the economic benefits associated with the asset will flow to the SB; and

(c) The amount of the resources flowed in can be measured reliably.

16. **When a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset has been satisfied, a SB shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction.**

17. Revenue comprises gross inflows of economic benefits received or receivable by the SB, which represents an increase in net assets / equity, other than increases relating to contributions from owners.

18. A SB can recognise an asset when it has an enforceable claim to the resources, i.e. the use of the transferred asset are contained in laws, regulations, or other binding arrangements. For example, promises to give[1] from donor to SBs shall be recognised as donations, only if sufficient evidence in the form of verifiable documentation that a promise was made and received by the SB. An announcement of an intention to transfer resources is not sufficient to identify resources as controlled by the SB.

19. Sometimes, the SBs act as an agent of the government for collections of non-exchange revenue. 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.

Gross Accounting of Revenue and Cost

20. Where an entity incurs some costs in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits, and any outflow of resources is recognised as a cost of the transaction.

Consideration of Obligations under the Non-Exchange Transaction

21. 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.

22. Stipulations relating to a transferred asset may be either conditions or restrictions. Conditions on a transferred asset give rise to a present obligation on initial recognition, thus resulting in the recognition of a liability until the conditions are fulfilled. However, restrictions on a transferred asset do not impose on the recipient of the asset a present obligation to transfer future economic benefits to third parties when control of the asset is initially gained, thus a liability need not be recognised. Instead, revenue is recognised immediately.

23. Advance receipts are amounts received before a non-exchange transaction arrangement becomes binding, thus giving rise to an asset and a present obligation.

[1] A promise to give is an agreement to donate cash or assets to the SB.

24. Meeting conditions on a transferred asset may be either within the SB's control or reliant on external factors outside its control. Where meeting such conditions are within the SB's control and there is sufficient evidence that the conditions will be met, then income should be recognised. Where uncertainty exists as to whether the recipient SB can meet conditions within its control, income should not be recognised but deferred as a liability until certainty exists that the conditions imposed can be met.

25. Conditions such as the submission of accounts or certification of expenditure can be seen as simply an administrative requirement as opposed to a condition that might prevent the recognition of income.

26. There may be conditions that specify the time period in which the expenditure of resources received can take place. Such a pre-condition for use limits the SB's ability to expend the resources until the time condition is met. For example, the receipt in advance of a donation specified to cover an expenditure that must take place in a future accounting period should be accounted for as a deferred income and recognised as a liability until the accounting period in which the recipient SB is allowed by the condition to expend the resource.

27. Where the existence of a condition prevents the recognition of an incoming resource, a contingent asset should be disclosed where it is probable (but not virtually certain) that the condition will be met in the future.

28. Recognition of resources received without pre-conditions should not be deferred even if the resources received are in advance of the performance of the activity, if the SB is the party in control of the timing of the activity. In such cases, the SB has entitlement to the resource with the timing of the expenditure being within the discretion of the SB.

Recognition of Services Received

29. For services received to be recognised as non-exchange revenue, the services must

(a) Create or enhance non-financial assets; or

(b) Require specialised skills which are usually provided by individuals with the professional competency and would typically need to be purchased if not provided by donation. Examples include professional services by accountants, architects, doctors, engineers, lawyers, etc.

30. In accordance with the preceding paragraphs, when a SB 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 non-exchange transaction become binding 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.

Measurement of Non-Exchange Revenue

31. **An asset acquired through a non-exchange transaction shall initially be measured at its fair value at the date of acquisition.**

32. **The amount recognised as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.**

33. **Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognised by the SB.**

34. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

35. Revenue in the form of goods or services may be measured by referring to either the fair value of the goods or services received or the fair value of the asset or the asset enhancement resulting from the services. A possible proxy on the fair value of the goods or services received will be the consideration that would have to be paid by the SB if it had purchased the good or service.

36. When, as a result of a non-exchange transaction, a SB recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph 30, 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 31, and the amount of the increase in net assets, if any, will be recognised as revenue. When a liability is subsequently reduced, because a non-exchange transaction arrangement becoming binding, the amount of the reduction in the liability will be recognised as revenue.

37. Annex A illustrates the process that a SB undertakes when there is an inflow of resources to determine whether revenue arises.

Disclosure for Non-Exchange Revenue

38. The objective of the disclosure requirements is for SB to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from non-exchange revenue.

39. SBs should provide the following disclosures:

    i. The accounting policies applied in recognising non-exchange revenue;

    ii. The amount of non-exchange revenue recognised during the period by major classes;

    iii. The amount of receivables recognised in respect of non-exchange revenue;

    iv. Nature of any non-exchange revenue not recognised in the financial statements due to unreliability of the value of the non-exchange revenue;

    v. Details of any restrictions and conditions imposed on non-exchange revenue; and

    vi. Valuation basis for non-cash non-exchange revenue.

40. For promises to give, the following shall be disclosed.

    Unconditional promises to give:

    i. The amount of promises receivable in less than one year, in one to five years, and in more than five years; and

    ii. The amount of allowance for uncollectible promises receivable, if any.

Conditional promises to give:

i. The total of the amounts promised; and

ii. A description and amount for each group of promises having similar characteristics, including the nature of the conditions attached.

41. Where the recognition of non-exchange revenue is deferred, a reconciliation of deferred revenue at the beginning and end of the year should be provided showing:

i. Amount recognised as deferred revenue in current year that increases the deferred revenue balance; and

ii. Amount recognised as income in current year that decreased the deferred revenue balance.

42. A SB shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A SB shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

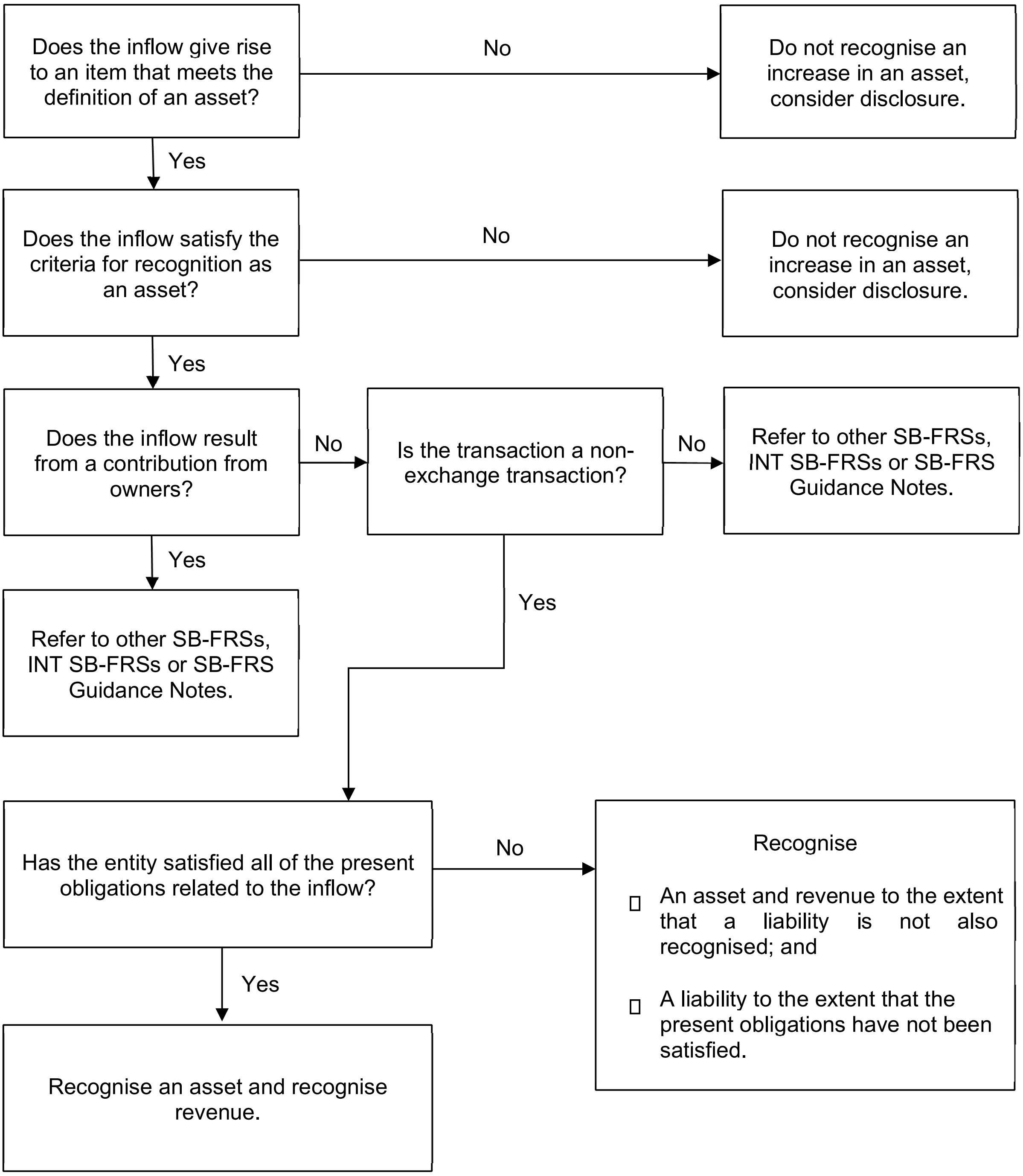
Effective Date

43. This Standard is operative for financial statements covering periods beginning on or after 1 January 2018. Earlier application is permitted. If a SB applies this Standard earlier, it shall disclose that fact.

Annex A

Illustration of the Analysis of Initial Inflows of Resources

The purpose of this flowchart is to summarise the main recognition requirements of this Standard. The flowchart is illustrative only; it does not take the place of this Standard. It is provided as an aid to interpreting this Standard.



Adapted from IPSAS 23 *Revenue from Non-Exchange Transaction (Taxes and Transfers)*

Annex B

Illustrative examples

These illustrative examples accompany, but are not part of, SB-FRS 1001.

Example 1: Fines and Penalties

Scenario

44. Following a change in legislation, Statutory Board A is required to channel fines and penalties resulting from a breach in law and regulations back to the Government. These fines and penalties are collected by Statutory Board A on behalf of the Government.

Assessment

45. When Statutory Board A has an enforceable claim over the fines and penalties, such as through the issuance of summons, a fine receivable and a corresponding amount owing to the Government will be recorded. When the offender pays the fines and penalties to Statutory Board A, the fine receivable will be reduced. Subsequently, when Statutory Board A channelled the fines and penalties back to the Government, the amount owing to the Government will be reduced.

46. Before the change in legislation, these fines and penalties are a form of non-exchange revenue of Statutory Board A.

Example 2: Donations with Attached Conditions

Scenario

47. Company C donates $1 million to Statutory Board B and specifically instructs Statutory Board B to only use this funding to meet the needs of the less privileged in Singapore within one year from the date of receipt. Any unused sum within one year will have to be returned to Company C. After one year, $300,000 has not been used for the stated purpose.

Assessment

48. While the requirement to use the donated sum for the less privileged in Singapore is a restriction placed on the funding received, the requirement to return the unused sum to Company C within one year is a condition instead. Upon receipt, a deferred income / liability is recognised. This will be reversed and a total income of $700,000 will be recognised when (or as) the donated funds have been used for its stated purpose. After one year, deferred income of $300,000 remains on the balance sheet, which will be derecognised when the funds are returned to Company C in full.

Example 3: Donated Service-in-kind

Scenario

49. Designer D offers to donate his professional service to design the office building for Statutory Board E for free. Statutory Board E would have to spend $400,000 if it were to buy this service. The useful life of the office building is estimated to be 25 years.

Assessment

50. When Statutory Board E uses Designer D's professional service, a donation income, AND, an asset will be recognised. This asset, comprising of the total capitalised costs of the office building, will be depreciated over 25 years in accordance with SB-FRS 16 *Property, Plant and Equipment*.

Example 4: Waiver of Outstanding Amounts Owed

Scenario

51. Statutory Board F purchases drinks from Supplier G. After knowing that these drinks will be used by Statutory Board F for charitable purposes, the supplier decides to donate drinks and issues a credit note to Statutory Board F.

Assessment

52. Statutory Board F will record an account payable after it has purchased drinks from Supplier G. Upon receipt of the credit note, this liability will be reversed, AND, donation income will be recorded.

Example 5: Donations where Nominal Considerations are Provided

Scenario

53. Company H gives cash of $100,000 to Statutory Board I. In return, Statutory Board I is expected to send speakers to a 2-day conference. The estimated cost to Statutory Board I of providing this service is approximately $400.

Assessment

54. According to SB-FRS Guidance Note 7 *Accounting for Sponsorships Received*, a sponsorship arises when a Statutory Board receives cash, other assets or services and is expected to provide consideration to the sponsor. In instances where nominal consideration is provided, the transfer of assets should be recognised as donation received. An acknowledgement of the donor would not be deemed as consideration.

55. As the value of the consideration provided by Statutory Board I is nominal ($400) relative to the cash received ($100,000), this cash given by Company H should be accounted as a donation by Statutory Board I.