

## CHAPTER 2

# Concepts and principles

## 2.1 CONCEPTS

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### 2.1.2 Accounting requirements

#### Recognition of revenue

**2.1.2.42** The principles of revenue recognition are included in a number of sections of Chapter 2 of the Code. Typical revenue transactions that occur in local authorities include income from:

- a) taxation charged by local authorities, for example, council tax, general rates and non-domestic rates (see Sections 2.2, 2.8 and 3.6)
- b) breaches or contraventions of laws or regulations, for example, fines and penalties (see Section 2.3 ~~and IPSAS 23 Revenue from Non-Exchange Transactions~~)
- c) fees and charges for both exchange and non-exchange transactions, for example, precepts and levies, car parking fees and taxi licences
- d) government grants or contributions – including grants and contributions from central government and other public sector bodies (see Section 2.3)
  - transfers given voluntarily to a local authority, for example, bequests and donations (see Section 2.3 ~~and IPSAS 23~~)
  - income from charging from the sale of goods or services to local authority service recipients (see Section 2.7), and
  - income from the disposal of the sale of non-current assets (see Chapter 4).

**2.1.2.43** Revenue transactions can be broadly divided into two types: those that exchange transactions and those that are non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

**2.1.2.44** There is a further group of non-exchange transactions where an entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the authority will need to determine whether there is a combination of exchange and non-exchange transactions, each component of which is recognised separately.

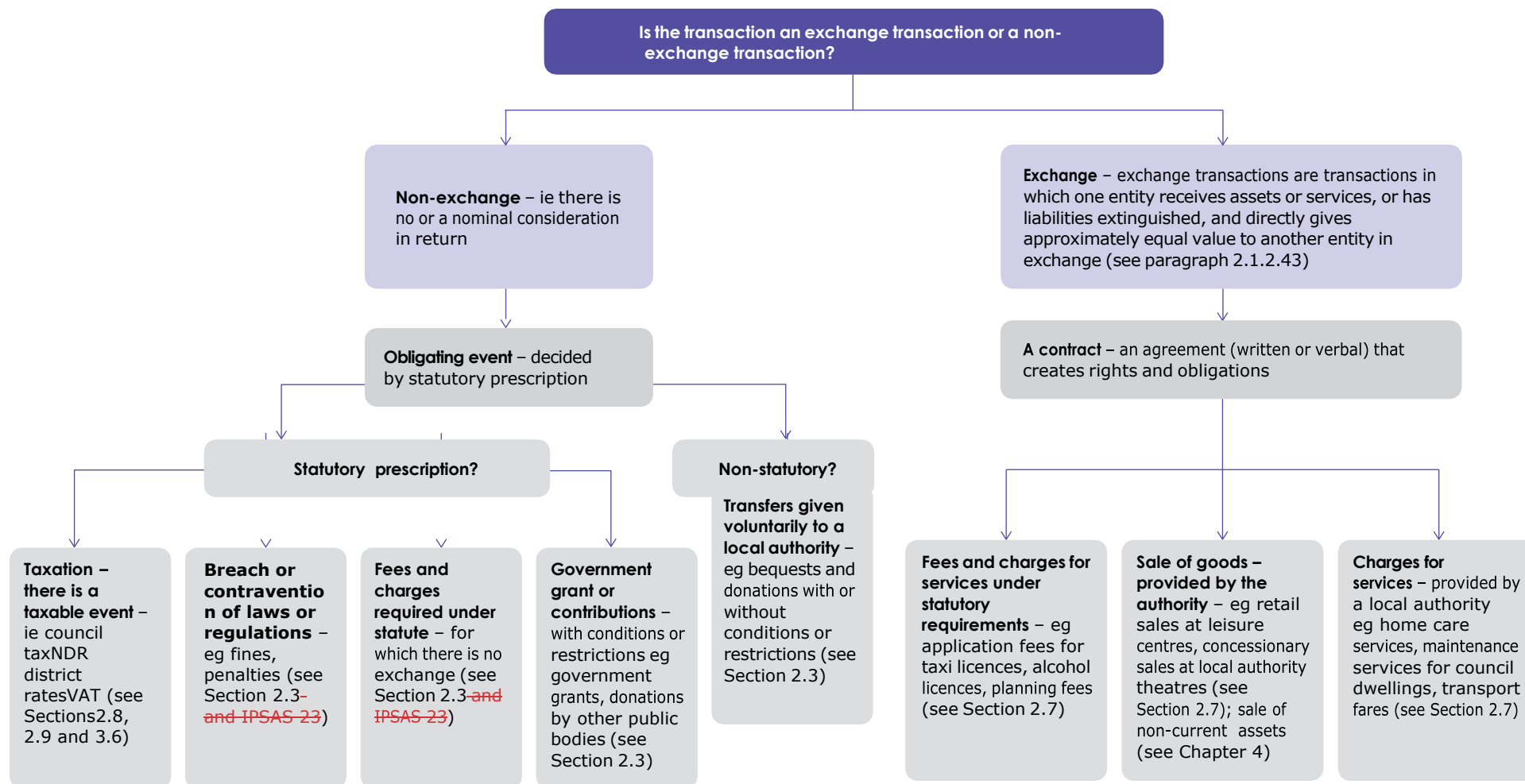
**2.1.2.45** For non-exchange transactions: revenue shall be recognised when the event that triggers the payment to the authority has taken place and:

- a) it is probable that the economic benefits associated with the transaction will flow to the authority, and

b) the amount of the revenue can be measured reliably.

- 2.1.2.46** The vast majority of exchange transactions (that are not sales of non-current assets) incurred by local authorities are likely to be recognised in accordance with Section 2.7 as in most cases the exchange is likely to be as a result of a contract, even if this contract is not written. The recognition criteria for these transactions are set out in paragraphs 2.7.2.13–2.7.2.26 and IFRS 15 Revenue from Contracts with Customers. Where there is no contract and paragraph 15 of IFRS 15 does not apply then revenue should be recognised in accordance with paragraph 2.1.2.45. The remaining exchange transactions are likely to be as a result of disposals of non-current assets and those proceeds should be recognised in accordance with Chapter 4 of the Code. For these latter transactions local authorities will also need to account for the disposals in accordance with the statutory provisions and proper practices to recognise capital receipts (see Chapter 4).
- 2.1.2.47** The following diagram shows the recognition principles for the main types of income recognised by local authorities.

## Principles of revenue recognition in local authorities



### **Taxation (for example, council tax, general rates, non-domestic rates and district rates)**

- 2.1.248 A major source of local authority income is council tax, district (or general) rates and non-domestic rates. There is substantial statutory prescription for how and when these taxes are levied by a local authority, and when they become payable, and this section of the Code will not replicate this. These taxes are property taxes and the taxable event is the financial year for which the tax is levied and becomes payable. For more on the accounting requirements for council tax, district rates and non-domestic rates see Sections 2.8 and 3.6 of the Code.
- 2.1.249 Other taxes include the business rate supplements and business improvement district schemes. Revenue recognition criteria for these schemes are set out in Section 2.2.

### **Breaches or contraventions of laws and regulations (for example, fines and penalties)**

- 2.1.250 Fines are inflows of economic benefits arising from breaches or contraventions of laws or regulations when there is a statutory obligation to pay. Examples of fines and penalties include fly tipping fines, car parking fines, library fines etc. Fines and penalties are recognised at the time when they are imposed by the local authority and in accordance with the recognition criteria set out in paragraph 2.1.2.45.

### **Fees and charges required under statute (non-exchange transactions)**

- 2.1.251 There are other occasions that local authorities can charge other bodies and for which there is no exchange or consideration in return. Examples of this would be precepts and levies imposed by precepting and levying bodies under the relevant local government finance acts or the community infrastructure levy (CIL). Revenue would be recognised for such charges on the date on which the payment is due under the relevant statutory requirements and in accordance with paragraph 2.1.2.45. The recognition criteria for CIL charges will be met at the commencement date of the chargeable development (see also Section 2.2 for the recognition requirements for CIL).

### **Government grants or contributions**

- 2.1.252 Government grants or contributions are assistance in the form of transfers of resources to an authority in return for past or future compliance with certain stipulations relating to the operation of activities. Local authorities receive numerous grants from various bodies including central government and from other local authorities. The recognition criteria and requirements for government grants and contributions are set out in paragraphs 2.3.2.8 to 2.3.2.16.

### **Transfers given voluntarily (for example, bequests and donations)**

- 2.1.253 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 authority has an enforceable claim, for example, on the death of the testator, or the granting of probate. Donations are voluntary transfers of assets, including cash or other monetary assets. 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 ~~(see IPSAS 23)~~.

### **Fees and charges for services under statutory requirements (exchange transactions)**

Local authorities are required or permitted to charge for services or goods under numerous statutory provisions. These include charges for planning application fees, application fees for taxi licensing or alcohol and entertainment licensing, various inspection fees, housing rental income for the Housing Revenue Account etc. There is an implied contract for these transactions and therefore income is recognised in accordance with Section 2.7 of the Code.

### Sale of goods (exchange transactions)

- 21.2.54** Local authorities sell various goods as a part of the discretionary services they provide. These sales may include retail sales of sporting equipment at leisure centres, aids and adaptations for social care activities or concessionary sales at leisure centres or theatres. Income for these transactions is recognised in accordance with Section 2.7 of the Code.

### Charges for services provided by local authorities (exchange transactions)

- 21.2.55** Local authorities provide numerous services for which they are required or permitted to charge. Examples of these include homecare services to the elderly, leisure services, cemetery, cremation and mortuary services and maintenance service charges for housing dwellings. Income for these transactions is recognised in accordance with Section 2.7 of the Code.

## 2.2 BUSINESS IMPROVEMENT DISTRICT SCHEMES (ENGLAND, WALES AND SCOTLAND), BUSINESS RATE SUPPLEMENTS (ENGLAND), AND COMMUNITY INFRASTRUCTURE LEVY (ENGLAND AND WALES)

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### 2.2.1 Introduction

#### Business improvement district schemes

- 22.1.1** Business improvement district (BID) projects are projects for the benefit of a particular area that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers, or a class of such ratepayers, in the BID area. There are two key participants – the billing authority for the area and the BID body.
- 22.1.2** There is no IFRS, IPSAS or UK GAAP covering BID schemes. The appropriate accounting treatment for the billing authority is determined by whether it acts as principal or agent, in accordance with Section 2.6 of the Code. England and Wales have had a BID scheme for some time; the Business Improvement Scheme for Scotland came into force on 1 April 2007 under the Business Improvement Districts (Scotland) Regulations 2007.

#### Business rate supplements

- 22.1.3** Business rate supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities “to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development”. Levying authorities are required to maintain a statutory ringfenced business rate supplement revenue account. Business rate supplements currently apply to England only; although the Act extends to Wales, the Welsh Government has not enacted regulations to permit business rate supplements to be levied. A business rate supplement is a non-exchange transaction, and as such is accounted for in accordance with paragraph 2.1.2.45 under IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) as adopted by this Code.

#### Community infrastructure levy

- 22.1.4** The community infrastructure levy (CIL) was introduced by the Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 as amended, and is a discretionary charge that relevant local authorities are empowered to charge on new development in their area. CIL charges will be based on a formula that relates the charge to the size of the development. The proceeds of the levy must be spent on infrastructure to support the development of the area. CIL applies in England and Wales only where the charging authority has implemented a CIL

scheme. CIL is a non-exchange transaction, and as such is accounted for in accordance with paragraph 2.1.2.45 under IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) as adopted by this Code.

## 2.3 GOVERNMENT AND NON-GOVERNMENT GRANTS

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### 2.3.1 Introduction

23.1.1 Authorities shall account for and provide disclosures in relation to grants and contributions in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, except where adaptations to fit the public sector are detailed in the Code. ~~IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) provides additional guidance on the adaptations of IAS 20 adopted by the Code.~~

### Adaptation for the public sector context

23.1.2 The following adaptations of IAS 20 ~~and IPSAS 23~~ for the public sector context apply.

#### Scope

- The scope of IAS 20 is extended to include grants and contributions from non-government organisations.

#### Recognition and presentation

- Grants and contributions shall be recognised immediately as income, unless any conditions have not been met; an authority shall not include grants and contributions deferred in the Balance Sheet.
- The transfer of assets for nil consideration or less than fair value (ie donated assets) shall be credited to a donated assets account where any conditions of the transfer have not been met.
- The option of deducting the grant from the carrying amount of the asset(s) is not permitted.

### 2.3.2 Accounting requirements

#### Definitions

- 23.2.1 **Conditions on transferred assets** are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
- 23.2.2 **Donated assets** are assets (including some heritage assets and right-of-use assets) transferred at nil value or acquired at less than fair value.
- 23.2.3 **Grants and contributions** are assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities. They exclude those forms of assistance that cannot reasonably have a value placed upon them and transactions with organisations that cannot be distinguished from the normal service transactions of the authority.
- 23.2.4 **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- 23.2.5 **Restrictions on transferred assets** are stipulations that limit or direct the purposes for which a

transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

**23.2.6** **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 authority.

**23.2.7** Further definitions are contained in IAS 20 ~~and IPSAS 23~~.

### **Recognition and presentation – grants and contributions**

**23.2.8** Grants and contributions, including donated assets, shall not be recognised until there is reasonable assurance that:

- a) the authority will comply with the conditions attached to them, and
- b) the grants or contributions will be received.

**23.2.9** Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately (when the two criteria in paragraph 2.3.2.8 are met) in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) relating to initial recognition that the authority has not satisfied. Grants and contributions that satisfy the recognition criteria in paragraph 2.3.2.8 but which have a condition attached that remains to be satisfied are recognised initially in the relevant grants receipts in advance account.

General grants and contributions (comprising Revenue Support Grant, NDR redistribution and unringfenced government grants) are required to be disclosed as one or more items on the face of the Comprehensive Income and Expenditure Statement.

**23.2.10** Revenue grants and contributions that are not general grants described above shall be credited to service revenue accounts, support services, trading accounts and the Housing Revenue Account.

**23.2.11** Donated assets transferred to an authority for nil consideration shall be recognised immediately at fair value as an asset on the Balance Sheet. The asset shall be recognised in the Comprehensive Income and Expenditure Statement as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) that the authority has not satisfied. In this case the asset is credited to the donated assets account and recognised in the Comprehensive Income and Expenditure Statement once the condition(s) has been satisfied.

**23.2.12** Where donated assets have been acquired for less than fair value (ie a non-exchange transaction), the difference between the fair value of the asset and the consideration paid shall be recognised immediately in the Comprehensive Income and Expenditure Statement as income, or in the event that the transfer has a condition(s), recognised in the donated assets account until such time as the condition(s) have been met. The measurement at fair value of an asset, acquired for no consideration or for less than fair value, does not constitute a revaluation.

**23.2.13** A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor (subsequent to initial recognition) if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement.

**23.2.14** After initial recognition, donated assets shall be revalued and depreciated in line with Section 4.1 of the Code (also see IAS 16 *Property, Plant and Equipment*) or Section 4.10 of the Code and impaired in line with Section 4.7 of the Code (also see IAS 36 *Impairment of Assets*).

**23.2.15** The benefit of a loan at a below market rate<sup>15</sup> of interest is treated as a grant or contribution. The loan shall be recognised and measured in accordance with Chapter 7 of the Code (also see IFRS 9 *Financial Instruments*). The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Chapter 7

of the Code and the proceeds received. It is expected that in the majority of circumstances the loan will be for the acquisition or enhancement of an asset and as such the benefit is accounted for in accordance with paragraph 2.3.2.9. An authority shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

**232.16** Leases with payments at peppercorn or nominal consideration that are provided at substantially below market terms, and leases for nil consideration, shall be accounted for as follows:

- a) The portion of the lease that is payable, if any, along with any interest payments, is an exchange transaction and is accounted for in accordance with Section 4.2 (Leases).
- b) The difference between the consideration (lease payments) and the fair value of the lease on initial recognition (see Section 4.2) is non-exchange revenue and is accounted for in accordance with this section of the Code ~~and IPSAS 23~~. Leases with payments at peppercorn or nominal consideration, or for nil consideration, are accounted for in the same way as other donated assets.

(Note that a) to c) only apply where in substance the lessor donates the asset to the lessee.)

### Repayment of grants and contributions

**232.17** A grant or contribution that becomes repayable shall be accounted for as a revision to an accounting estimate in line with paragraphs 3.3.2.14 to 3.3.2.17 of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment shall first be applied to any receipt in advance set up in respect of the grant or contribution (ie the balance on the capital grants receipts in advance). To the extent that the repayment exceeds any such receipt in advance, or where no receipt in advance exists, the repayment shall be recognised within the Comprehensive Income and Expenditure Statement as an expense.

**232.18** Circumstances giving rise to repayment of a grant relating to an asset may require consideration to be given to the possible impairment of the asset (see Section 4.7 of the Code).

### Transfers

**232.19** ~~IPSAS 23 includes t~~The recognition and accounting treatment of debt forgiveness and assumption of liabilities; fines; bequests; gifts and donations, including goods in kind and services in kind are non-exchange transactions and should be accounted for in accordance with paragraph 2.1.2.45. In the event that these areas are relevant, authorities should refer to IPSAS 23.

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15. PWLB loans are not loans at below market value for this purpose.



## 2.6 PRINCIPAL AND AGENT TRANSACTIONS

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### 2.6.1 Introduction

- 26.1.1** The accounting treatment of transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as the principal or agent, in line with IFRS 15 *Revenue from Contracts with Customers*, ~~IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~.

## 2.7 REVENUE FROM CONTRACTS WITH SERVICE RECIPIENTS

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### 2.7.1 Introduction

- 27.1.1** Authorities shall account for revenue recognition in accordance with IFRS 15 *Revenue from Contracts with Customers* ~~and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~. In this section of the Code references to 'customer' in IFRS 15 are replaced with 'service recipient'.

~~**27.1.2** IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18 *Revenue*, and provides additional guidance for public sector bodies. IPSAS 9 has not been updated for the introduction of IFRS 15 and therefore IPSAS 9 should only be followed when instructed by this Code or where it remains consistent with the provisions of IFRS 15.~~

~~**27.1.3**~~ **27.1.2** This section of the Code does not cover revenue arising from:

- lease contracts (see Section 4.2)
- financial instruments and other contractual rights or obligations within the scope of Chapter 7 and IFRS 9 *Financial Instruments*, Chapter 9 and IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*
- insurance contracts (see Appendix A, paragraph A.1.8), and
  - non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

~~**27.1.4**~~ **27.1.3** An authority shall apply this section of the Code and IFRS 15 to a contract (other than a contract listed in paragraph 2.7.1.3) only if the counterparty to the contract is a service recipient. A service recipient is a party that has contracted with an authority to obtain goods or services that are an output of the authority's normal operating activities in exchange for consideration. The provisions in this section of the Code, ie from paragraph 2.7.2.1 to 2.7.2.39 apply to exchange transactions. However, where relevant, the provisions may be applied to non-exchange transactions.

~~**27.1.5**~~ **27.1.4** This section of the Code also refers to revenue from non-exchange transactions in general terms. However, for certain types of non-exchange transactions reference shall be made to other sections of this Code, ie Sections 2.2, 2.3, 2.8 and 2.9. See also the revenue recognition principles in Section 2.1.

### Adaptation for the public sector context

~~**27.1.6** No adaptations~~ The Code includes a public sector adaptation of IFRS 15 ~~and IPSAS 23 are required~~

~~for the public sector context; these standards are applied in full in relation to the recognition and measurement of revenue.~~

~~27.1.72.1.5~~ IPSAS 9 includes a public sector adaptation which the Code has adopted. The adaptations are as follows:

### Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

### Recognition

- Where authorities receive revenue through non-exchange transactions, they are not required to wait until all, or substantially all, of the promised revenue has been received to recognise the revenue as per IFRS 15 (15a). In these instances, revenue shall be recognised when the event that triggers the payment to the authority has taken place and:
  - a) it is probable that the economic benefits associated with the transaction will flow to the authority, and
  - b) the amount of the revenue can be measured reliably.

## 2.7.2 Accounting requirements

### Definitions

- 27.21** A **contract** is an agreement between two or more parties that creates enforceable rights and obligations.
- 27.22** A **contract asset** is an authority's right to consideration in exchange for goods or services that the authority has transferred to a service recipient when that right is conditioned on something other than the passage of time (for example, the authority's future performance).
- 27.23** A **contract liability** is an authority's obligation to transfer goods or services to a service recipient for which the authority has received consideration (or the amount is due) from the service recipient.
- 27.24** **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- 27.25** **Income** is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in reserves or net worth.
- 27.26** A **performance obligation** is a promise in a contract with a service recipient to transfer to the service recipient either:
- a) a good or service (or a bundle of goods or services) that is distinct; or
  - b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the service recipient.
- 27.27** **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. For additional guidance on what represents a non-exchange transaction see paragraphs 2.1.2.42 to 2.1.2.56 of the Code ~~and 8 to 11 of IPSAS 23.~~
- 27.28** **Revenue** is income arising as a result of an authority's normal operating activities.
- 27.29** A **service recipient** is a party that has contracted with an authority to obtain goods or services that are

an output of the authority's normal operating activities in exchange for consideration. Note that in this section of the Code all references to 'customer' in IFRS 15 have been replaced with 'service recipient'.

**27210** The **stand-alone selling price** of a good or service is the price at which an authority would sell a promised good or service separately to a service recipient.

**27211** The **transaction price** for a contract with a service recipient is the amount of consideration to which an authority expects to be entitled in exchange for transferring promised goods or services to a service recipient, excluding amounts collected on behalf of third parties.

### **Non-exchange transactions, for example, council tax, general rates and business rates**

**27240** There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, for example, revenue relating to council tax, general rates and business rates, and therefore these transactions shall be measured on recognition at their full amount receivable.

**27241** For non-exchange transactions, revenue shall be recognised when the obligating event that triggers the payment to the authority has taken place and:

- a)** it is probable that the economic benefits associated with the transaction will flow to the authority, and
- b)** the amount of the revenue can be measured reliably.

### **2.7.4 Disclosure requirements**

**2741** Disclosure of accounting policies in relation to revenue from contracts with service recipients is required where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code). Disclosure of accounting policies for non-exchange transactions is also required when significant to the financial statements (see the relevant section of the Code, for example, Section 2.3 for government grants and contributions and Section 2.8 for council tax, general rates and non-domestic rates).

IFRS 15 is a standard drafted for commercial entities, where the recognition of revenue is normally of paramount importance for the presentation of financial performance in the financial statements. Therefore a local authority shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements and shall consider the concept of materiality set out in Section 2.1 (paragraphs 2.1.2.14 to 2.1.2.17) for the users of local authority financial statements. An authority 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.

**2742** The objective of the disclosure requirements for this section of the Code is for an authority 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 contracts with service recipients. To achieve that objective, an authority shall disclose qualitative and quantitative information about the following:

- a)** its contracts with service recipients, and
- b)** the significant judgements, and changes in the judgements, made in applying this section of the Code to those contracts.

**2743** An authority need not disclose information in accordance with this section of the Code if it has provided the information in accordance with another section of the Code or IFRS or other reporting

requirement included in its financial statements.

#### **Disclosures for revenue from non-exchange transactions**

**27.4.19** Disclosures for revenue from non-exchange transactions are included in the relevant sections of the Code, ie Sections 2.2, 2.3, 2.8 and 2.9.

## 2.8 TAX INCOME (COUNCIL TAX, RESIDUAL COMMUNITY CHARGES, NON-DOMESTIC RATES (NDR) AND RATES)

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### 2.8.1 Introduction

- 2.8.1.1 This section of the Code applies the accounting principles contained within the Code to the accounting requirements in respect of tax income collected by local authorities. There is no IFRS covering tax income. ~~IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) sets out the principles that are to be followed.~~

## Current assets

### 5.2 DEBTORS

#### 5.2.1 Introduction

**5.2.1** Authorities shall account for debtors in accordance with IFRS 15 *Revenue from Contracts with Customers*, ~~IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ and IFRS 9 *Financial Instruments*, except where adaptations to fit the public sector are detailed in the Code.

~~5.2.1.2 IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18 *Revenue*, and provides additional guidance for public sector bodies. IPSAS 9 has not been updated for the introduction of IFRS 15 and therefore IPSAS 9 should only be followed when instructed by this Code or where it remains consistent with the provisions of IFRS 15.~~

~~5.2.1.3~~ **5.2.1.2** This section of the Code must be read in conjunction with Section 2.7 (Revenue from Contracts with Service Recipients) and Section 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) of the Code as it applies to financial assets.

#### Adaptation and interpretation for the public sector context

~~5.2.1.4 No adaptations~~ **5.2.1.4** ~~The Code includes a public sector adaptation of IFRS 15 and IPSAS 23 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of debtors.~~

~~5.2.1.5~~ **5.2.1.3** ~~IPSAS 9 includes a public sector adaptation that the Code has adopted.~~ The adaptation is as follows:

#### Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

~~5.2.1.6~~ **5.2.1.4** The Code includes an interpretation of IFRS 9, for the avoidance of doubt, as follows:

#### Recognition and measurement

- Assets relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

#### 5.2.2 Accounting requirements

##### Definitions

**5.2.2.1** **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

**5.2.2.2** **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).

- 5.2.2.3 Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- 5.2.2.4 Revenue** is income arising as a result of an authority's normal operating activities (see also Section 2.7 for the definition of income).
- 5.2.2.5 Debtors** are financial assets (but see the adaptation set out in paragraph 5.2.1.6 relating to non-contractual debtors such as council tax, general rates etc) not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents. See also paragraphs 2.7.2.42 and 2.7.2.44 to 2.7.2.45 for reference to the presentation of contract assets.

### **Recognition and measurement**

- 5.2.2.6** Debtors are not recognised when an authority becomes committed to supply the goods or services but when the ordered goods or services have been delivered or rendered.
- 5.2.2.7** Debtors shall be recognised and measured at the fair value of the consideration receivable when revenue has been recognised under Section 2.7 of the Code, except for a financial asset that is measured under Chapter 7.
- 5.2.2.8** In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. However, if payment is on deferred terms (ie beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in surplus or deficit on the provision of services. Short duration receivables with no stated interest rate may be measured at original invoice amount if the effect of discounting is immaterial (see Chapter 7).
- 5.2.2.9** There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable (see Chapter 7).
- 5.2.2.10** In the event that consideration has been paid in advance of the receipt of goods or services or other benefit, an authority shall recognise a debtor (ie payment in advance) in respect of that outflow of resources (see Section 2.7).

# CHAPTER 8

## Liabilities

### 8.1 CREDITORS

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#### 8.1.1 Introduction

**8.1.1.1** Authorities shall account for creditors in accordance with the principles of expenditure recognition, IFRS 15 *Revenue from Contracts with Customers*, ~~IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ and IFRS 9 *Financial Instruments*, except where adaptations to fit the public sector are detailed in the Code.

~~8.1.1.2 IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18 *Revenue*, and provides additional guidance for public sector bodies. IPSAS 9 has not been updated for the introduction of IFRS 15 and therefore IPSAS 9 should only be followed when instructed by this Code or where it remains consistent with the provisions of IFRS 15.~~

~~8.1.1.3~~**8.1.1.2** This section of the Code must be read in conjunction with Section 2.7 (Revenue from Contracts with Service Recipients) and Section 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) of the Code as it applies to financial liabilities.

#### Adaptation and interpretation for the public sector context

~~8.1.1.4 No adaptations~~**The Code includes a public sector adaptation** of IFRS 15 ~~and IPSAS 23 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of creditors.~~

~~8.1.1.5~~**8.1.1.3** ~~IPSAS 9 includes a public sector adaptation which the Code has adopted.~~ The adaptation is as follows:

#### Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

~~8.1.1.6~~**8.1.1.4** The Code includes an interpretation of IFRS 9, for the avoidance of doubt, as follows:

#### Recognition and measurement

- Liabilities relating to such things as council tax, general rates, etc shall be measured at the full amount payable as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

#### 8.1.2 Accounting requirements

#### Definitions

**8.1.2.1** **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.



- 8.1.22 Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
- 8.1.23 Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- 8.1.24 Revenue** is income arising as a result of an authority's normal operating activities (see also Section 2.7 for the definition of income).
- 8.1.25 Creditors** are financial liabilities (but see the interpretation set out in paragraph 8.1.1.6 relating to non-contractual creditors such as those relating to council tax, general rates etc) arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier. See also paragraphs 2.7.2.42 to 2.7.2.43 for reference to the presentation of contract liabilities.

### **Recognition and measurement**

- 8.1.26** Creditors are not recognised when an authority becomes committed to purchase the goods or services but when the ordered goods or services have been delivered or rendered.
- 8.1.27** Creditors shall be recognised and measured at the fair value of the consideration payable except for a financial liability that is measured under Chapter 7 of the Code.
- 8.1.28** In most cases, the consideration payable is in the form of cash and cash equivalents and the amount of expense is the amount of cash and cash equivalents payable. However, if payment is on deferred terms see Section 2.7 of the Code.
- 8.1.29** There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie expense relating to council tax and general rates, and therefore these transactions shall be measured at their full amount payable.