SESSION 5:
Expenses

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Session Agenda

Social
Benefits

Collective And
Individual Services

Transfer Expenses

IPSAS® 42: Social Benefits

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Definitions

Social benefits are cash transfers provided to:

a) Specific individuals and/or households who meet eligibility criteria

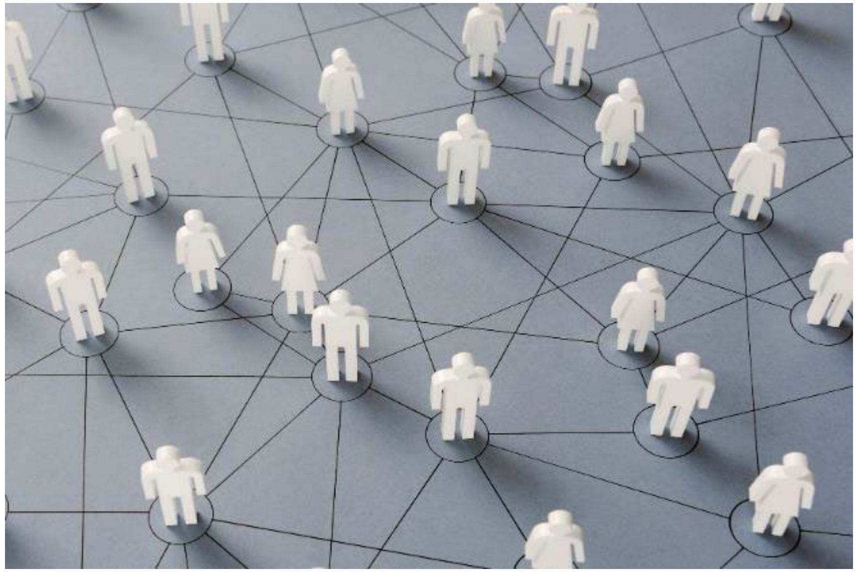
b) Mitigate the effect of social risks

c) Address the needs of society as a whole

Social risks are events or circumstances that:

a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status

b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income



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Accounting for Social Benefits

- General Approach
  - Used for all social benefits unless the government elects to use the insurance approach
- Insurance Approach
  - Used only where specified criteria are met and the government elects to use the insurance approach

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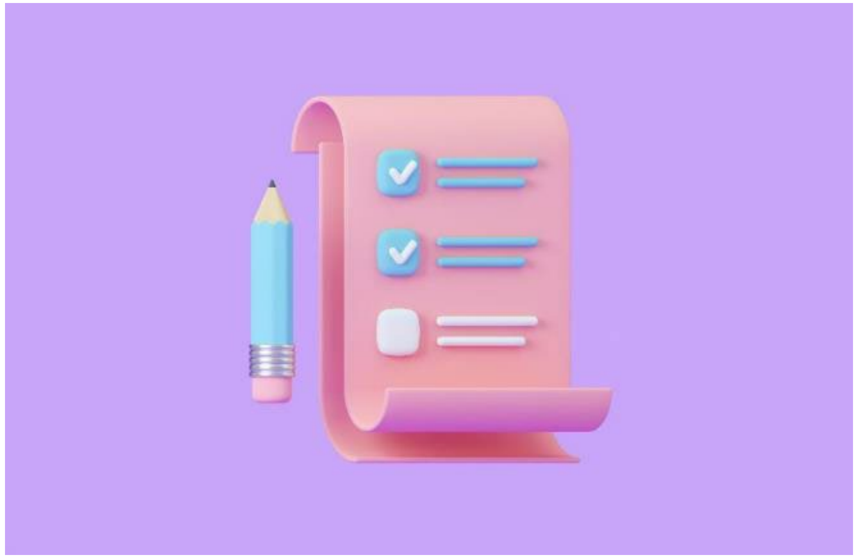
General Approach: Recognition

- Recognize a liability for a social benefit scheme when:
  - The entity has a present obligation for an outflow of resources that results from a past event
  - The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports
- The past event is the satisfaction by the beneficiary of all eligibility criteria for the next benefit
- The satisfaction of eligibility criteria for each social benefit payment is a separate past event



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Recognition Examples

- Reaching retirement age
  (in the case of a retirement pension)
- The death of a partner
  (in the case of a survivor benefit)
- Becoming unemployed (in the case of an unemployment benefit without a waiting period)
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period)

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General Approach: Measurement

- Expenses measured at amount equivalent to liability
- Liability measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations
- Liability is for next payment only
- Discounting not required for most social benefits
- Liability reduced as payments are made – differences recognized in surplus or deficit

General Approach: Disclosures

Characteristics of Social Benefit Schemes

Demographic, economic and other external factors that influence the level of expenditure

The total expenditure on social benefits, analyzed by social benefit scheme

A description of any significant amendments to the social benefit schemes

If a scheme satisfies the criteria to permit the use of the insurance approach, a statement to that effect

Collective and Individual Services – Appendix A to IPSAS® 19

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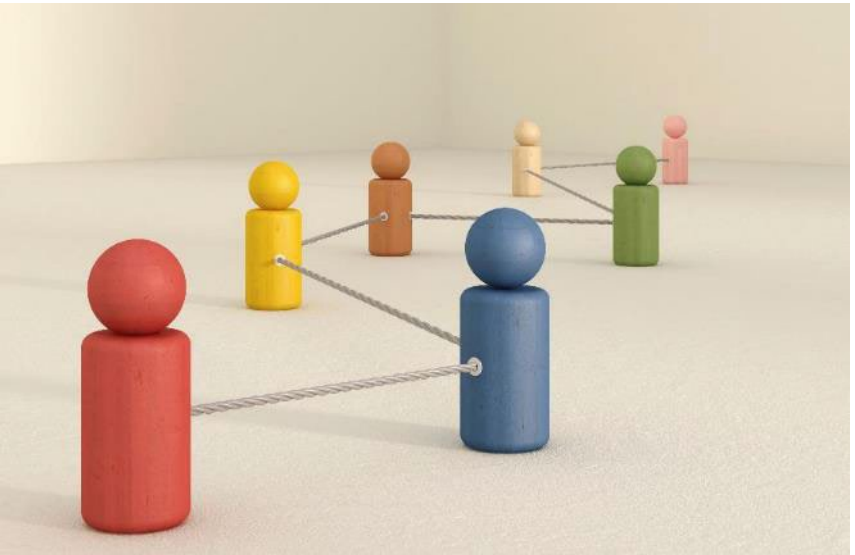
Definitions

- **Collective services** are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.
- **Individual services** are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.



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Collective Services, Individual Services and Social Benefits

	Social Benefits	Individual Services	Collective Services
Involves a cash transfer to eligible beneficiaries?	✓	✗	✗
Provided to individuals and/or households, rather than to a community?	✓	✓	✗
Intended to address the needs of society as a whole?	✓	✓	✓

Accounting for Collective and Individual Services

- Ongoing activity of government therefore no provision is recognized
- Related expenses accounted for using other IPSAS

Transfer Expenses

Definitions

A **transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return.

A **transfer right** is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A **transfer obligation** is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

Types of Transfer Expense

Does the transaction arise from a binding arrangement?

- Yes – Transfer expense from transaction with binding arrangement
- No – Transfer expense from transaction without binding arrangement

Binding Arrangement

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

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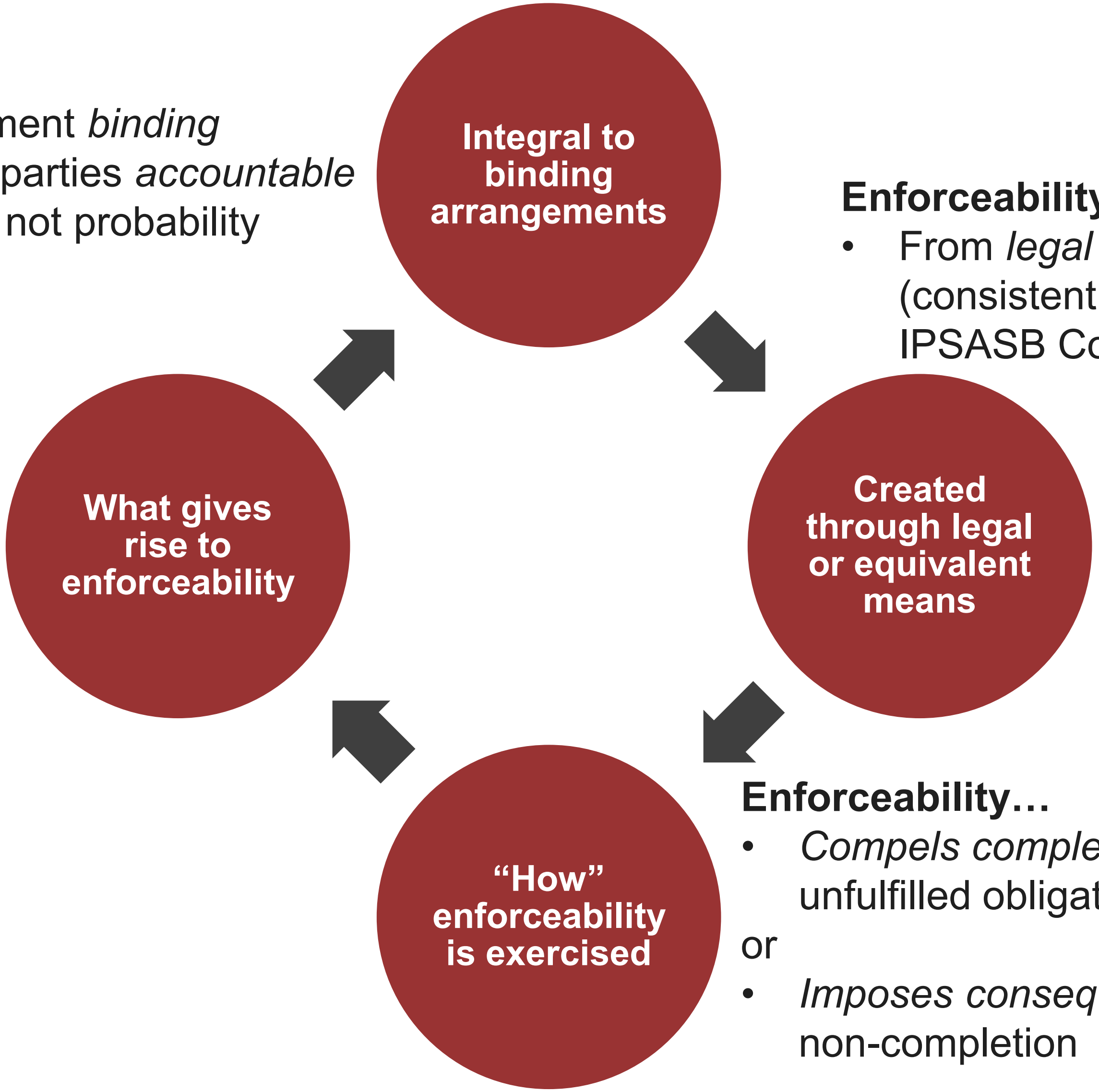
Enforceability



Enforceability…

- Makes an arrangement *binding*
- Holds the involved parties *accountable*
- Is based on *ability*, not probability

Enforceability…

- From *legal* or equivalent means (consistent with 'legal obligations' in IPSASB Conceptual Framework)

Enforceability…

- *Compels completion* of unfulfilled obligation(s)

or

- *Imposes consequences* of non-completion

Enforceability…

- Can arise from *various mechanisms*
- Should be determined by assessing *all relevant factors*

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Accounting for Transfer Expenses without Binding Arrangements

When a transfer does not involve a binding arrangement:

Upon loss of control of transferred resources	OR	Facts and circumstances result in a constructive or legal obligation to transfer resources
> Transferred asset is derecognized > Transfer expense is recognized		> Recognize a provision and expense in accordance with IPSAS 19 > Subsequent transfer of resources results in derecognition of the transferred asset and a corresponding reduction of the provision

Measurement of Transfer Expenses without Binding Arrangements

When a provision is recognized when a constructive obligation or legal obligation to transfer resources arises, the provision is initially and subsequently measured in accordance with IPSAS 19.

When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.

Accounting for Transfer Expenses with Binding Arrangements

- Identify transfer rights
- Recognize transfer expense
  - When (or as) transfer right is derecognized
  - When transfer obligation is recognized

Recognizing Transfer Expenses with Binding Arrangements

Inception of Binding Arrangement – no asset or liability recognized

Scenario	Accounting	
Entity transfers resources (asset) prior to transfer recipient fulfilling obligations	Recognize transfer right asset and derecognize resources (asset)	Recognize expense as transfer recipient fulfils obligations and derecognize transfer right asset
Transfer recipient fulfils obligations prior to entity transferring resources (asset)	Recognize expense and transfer obligation liability as transfer recipient fulfils obligations	Derecognize transfer obligation liability and derecognize resources (asset) as entity transfers resources

Measurement of Transfer Expenses with Binding Arrangements

	Scenario	Accounting	
Identify Transfer Consideration	Entity transfers resources (asset) prior to transfer recipient fulfilling obligations	Measure transfer right asset at carrying amount of resources (asset) transferred	Measure transfer expense at the amount of the transfer consideration that is **allocated** to the extinguished transfer right
	Transfer recipient fulfils obligations prior to entity transferring resources (asset)	Measure transfer obligation liability at the amount of the transfer consideration that is **allocated** to the extinguished transfer right	Transfer recipient fulfils obligations prior to entity transferring resources (asset)

Allocation of Transfer Consideration to Transfer Rights

Transfer consideration is allocated to each distinct transfer right to reflect its stand- alone consideration, adjusted for amounts of variable consideration

The stand-alone consideration is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations

Transfer consideration can vary for items such as discounts, rebates, refunds, credits, incentives, performance bonuses, penalties etc.

Variable consideration allocated to one or more transfer rights where can be identified with those rights

Otherwise allocated to all transfer rights proportionately

Other Issues

After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement.	• Where there is an enforceable and unconditional right to the receipt of cash or other financial assets (a refund) – recognize financial asset and derecognize transfer right asset • Otherwise apply IPSAS 21 in determining impairment of transfer right asset
Modifications to binding arrangements	• Treat as new arrangement if new transfer rights and increased transfer consideration • Otherwise accounted for as if part of original arrangement

Presentation and Disclosure

Presentation

- Transfer right assets and transfer obligation liabilities are presented in the statement of financial position

Disclosure

- Transfer expenses and related balances
- Transfer arrangements
- The significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions

Resources

Additional Information

- IPSASB’s Website
- IPSASB’s Handbook (digital version)
- IPSASB’s Handbook (PDF version)
- PSAB’s International Activities page

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Public Sector
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Thank You!