

## **5 CURRENT ASSETS**

### **5.1 Inventories**

#### **5.1.1 Introduction**

5.1.1.1 Authorities shall account for inventories (see paragraph 5.1.2.4 for definition) in accordance with *IAS 2 Inventories*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

5.1.1.2 *IPSAS 12 Inventories* is based on *IAS 2*, and provides additional guidance for public sector bodies.

5.1.1.3 This section of the Code applies to all inventories except for:

- work in progress arising under construction contracts, including directly related service contracts in accordance with chapter 5 section 2 (also see *IAS 11*)
- financial instruments in accordance with chapter 7 section 1 (also see *IAS 39*)
- biological assets in accordance with Appendix A paragraph A.1.5 (also see *IAS 41*)

5.1.1.4 This section of the Code does not apply to the measurement of inventories held by authorities who produce agricultural and forest products, agricultural produce after harvest, and minerals and mineral products. Such assets are not expected to be common in local authorities. Where authorities have such assets, they shall measure for them in accordance with Appendix A paragraph A.1.5 (also see *IAS 41* and *IFRS 6*).

#### *Interpretation and adaptation for the Public Sector Context*

5.1.1.5 *IPSAS 12* includes a number of public sector interpretations which the Code has adopted. The interpretations are as follows:

#### Measurement;

- Inventories shall be measured at the lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be their fair value as at the date of acquisition.
- Inventories shall be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge; or consumption in the production process of goods to be distributed at no charge or for a nominal charge.

#### **5.1.2 Accounting Requirements**

##### *Definitions*

- 5.1.2.1 *Current replacement cost* is the cost the entity would incur to acquire the asset on the reporting date.
- 5.1.2.2 *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.
- 5.1.2.3 *Fair value* is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction.
- 5.1.2.4 *Inventories* are assets:
- (a) In the form of materials or supplies to be consumed in the production process;
  - (b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
  - (c) Held for sale or distribution in the ordinary course of operations; or
  - (d) In the process of production for sale or distribution.
- 5.1.2.5 *Net realisable value* is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.
- 5.1.2.6 *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 approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- Measurement*
- 5.1.2.7 Inventories shall be measured at the lower of cost and net realisable value, except where paragraph 5.1.2.8 applies.
- 5.1.2.8 Where inventories are acquired through a non-exchange transaction, their cost is deemed to be their fair value as at the date of acquisition. Where inventories have been acquired for less than fair value (i.e. a non-exchange transaction), the difference between the fair value of the inventories and the consideration paid shall be recognised in Surplus or Deficit on provision of services, as income when the inventories are sold or in the event that the inventories have not been sold recognised in XXXXXXXX (*the account to be used in the final version of the Code will be dependant upon the work that is currently being undertaken by HM Treasury and CIPFA with regard to non-exchange transactions under IAS 2 and IPSAS 23*) until such time as the inventory has been sold (see paragraph 5.1.2.18).
- 5.1.2.9 Inventories shall be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge; or

consumption in the production process of goods to be distributed at no charge or for a nominal charge.

- 5.1.2.10 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- 5.1.2.11 An authority may purchase inventories on deferred settlement terms. The difference between the purchase price for normal credit terms and the amount paid (i.e. the arrangement effectively contains a financing element), is recognised as interest over the period of the credit in Surplus or Deficit on provision of services.
- 5.1.2.12 Much of the output of authorities is in the form of services rather than goods. To the extent that an authority as a service provider has inventories (work in progress), they shall measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. The costs of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.
- 5.1.2.13 The standard cost method or retail methods are techniques to measure the cost of inventories where approximate costs are used for convenience as opposed to actual costs. Where authorities deem that these techniques are relevant they should refer to *IAS 2*.
- 5.1.2.14 The cost of inventories shall be attributed to identified items of inventory. Where this is not possible the cost of inventories shall be assigned using the first-in, first-out (FIFO) or weighted average cost formula. The Code does not allow the use of the last-in, first-out (LIFO) cost formula. An authority shall use the same cost formula for all inventories having a similar nature and use to the authority. For inventories with a different nature or use, different cost formulas may be justified.
- 5.1.2.15 Inventories should not be carried in excess of amounts expected to be realised from their sale or use. Where inventories are damaged, become wholly or partially obsolete, or if their selling prices have declined, this may indicate that the cost of inventories are not recoverable, in which case their cost shall be written down to net realisable value.
- 5.1.2.16 When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value or current replacement cost because of a change in economic circumstances, the amount of the write-down is reversed so the new carrying amount is the lower of cost and the revised net realisable value (see paragraph 5.1.2.7) or is the lower of cost and the revised current replacement cost (see paragraph 5.1.2.9). Any reversal is limited to the amount of the original write-down.
- 5.1.2.17 An authority may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows.

These types of inventories may arise when an authority has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the authority would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the authority. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 5.1.2.7.

*Recognition as an expense*

- 5.1.2.18 When inventories are sold, exchanged or distributed the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognised when the goods are distributed or related service is rendered. The amount of any write-down of inventories (i.e. to net realisable value or current replacement costs – see paragraphs 5.1.2.7 and 5.1.2.9 respectively) and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.
- 5.1.2.19 For a service provider, the point when inventories are recognised as expenses normally occurs when services are rendered, or upon billing for chargeable services.

**5.1.3 Statutory Accounting Requirements**

- 5.1.3.1 There are no statutory accounting requirements in relation to inventories.

**5.1.4 Disclosure Requirements**

- 5.1.4.1 Disclosure of accounting policies in relation to inventories is required (see section 3.4 of the Code).
- 5.1.4.2 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to inventories:
- (1) The financial statements shall disclose:
    - (a) the total carrying amount of inventories and the carrying amount in classifications appropriate to the authority;
    - (b) the carrying amount of inventories carried at fair value less costs to sell;
    - (c) the amount of inventories recognised as an expense during the period;
    - (d) the amount of any write-down of inventories recognised as an expense in the period in accordance with this section of the Code;
    - (e) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with this section of the Code; and
    - (f) the circumstances or events that led to the reversal of a write-down of inventories in accordance with this section of the Code;

### **5.1.5 Statutory Disclosure Requirements**

5.1.5.1 There are no statutory disclosures required in relation to inventories.

### **5.1.6 Changes since SORP 2009**

5.1.6.1 The SORP 2009 required inventories to be measured at the lower of cost and net realisable value. In contrast the Code requires that where inventories are acquired through a non-exchange transaction their cost is measured at their fair value as at the date of acquisition and where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost. It is not expected that there will be a change in the measurement for many inventories held by authorities.

5.1.6.2 An authority may purchase inventories on deferred settlement terms. The difference between the purchase price for normal credit terms and the amount paid (i.e. the arrangement effectively contains a financing element), is recognised as interest over the period of the credit in Surplus or Deficit on provision of services. It is not expected that this occurrence will be common in authorities and the SORP is silent on this issue although the measurement is implicit in *FRS 26*.

5.1.6.3 The Code does not allow the use of LIFO cost formula. *SSAP 9 Stock and Long Term Contracts* refers to the use of last-in, first-out (LIFO) cost formula as one of the options to use as a basis for cost valuation for stock, although it discourages its use. The use of cost formula is not specifically stated in the SORP.

5.1.6.4 The Code requires that an authority must use the same cost formula for all inventories having a similar nature and use to the entity. This is not specifically stated in *SSAP 9* or the SORP, although the principle of consistency under *FRS 18 Accounting Policies* set out in the SORP should lead to a similar treatment.

## **Transition arrangements – Inventories**

It is considered that the impact of transition with regard to the change in measurement and acquisition on deferred settlement terms, will not apply to many inventories held by authorities.

### **Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009**

The Code (following *IFRS 1*) requires local authorities to classify and account for inventories in their opening IFRS balance sheet (1 April 2009) in accordance with section 5.1 of the Code (see also *IAS 2* and *IPSAS 12*). Accounting for Inventories following *IAS 2* is a change of accounting policy that will require authorities to restate their opening balances in respect of Inventories. *IPSAS 12* requires where inventories are acquired through a non-exchange transaction their cost is measured at their fair value as at the date of acquisition and where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost.

Where inventories are acquired through a non-exchange transaction (and held as at 31 March 2009) their carrying amount shall be adjusted to their fair value at the date of acquisition. Any previous adjustment to their carrying amount shall be reversed.

Where inventories are provided at no charge or for a nominal charge (and held as at 31 March 2009) their carrying amount shall be adjusted to the lower of cost and current replacement cost. Any previous adjustment to their carrying amount shall be reversed.

Where inventories have been purchased on deferred settlement terms beyond normal credit terms (and held as at 31 March 2009) the carrying amount of the inventories shall be adjusted with the difference between the purchase price for normal credit terms and the amount paid. The resultant deferred debit (in effect the financing element of the arrangement) shall be written down from the initial period of the arrangement to 31 March 2009.

### **Step 2 - Restate Comparative Figures for 2009/10 (inventories held prior to 1 April 2009)**

Following the restatement in step 1, where inventories are provided at no charge or for a nominal charge are still held at 31 March 2010, their carrying amount shall be adjusted to the lower of cost and current replacement cost (if required) as at that date. Any previous adjustment to their carrying amount shall be reversed.

Following the restatement in step 1, where inventories have been purchased on deferred settlement terms beyond normal credit terms, are still held at 31 March 2010 and the period of credit covers 2009/10, the deferred debit relating to 2009/10 shall be written down and recognised as interest in Surplus or Deficit on provision of services.

Following the restatement in step 1, where inventories acquired through a non-exchange transaction were sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any corresponding credit<sup>1</sup> to match the inventories sold or used shall be charged to Surplus or Deficit on

---

<sup>1</sup> Respondents are asked to note that the account to be used in the final version of the Code will be dependant upon the work that is currently being undertaken by HM Treasury and CIPFA with regard to non-exchange transactions under *IAS 2* and *IPSAS 23*

provision of services. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

Following the restatement in step 1, where inventories to be provided at no charge or for a nominal charge were sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

### **Step 3 - Restate Comparative Figures for 2009/10 (inventories recognised in 2009/10)**

Where inventories acquired through a non-exchange transaction were recognised during 2009/10 and are still held at 31 March 2010, their carrying amount shall be adjusted to their fair value as at the date of acquisition. Any previous adjustment to their carrying amount shall be reversed.

Where inventories to be provided at no charge or for a nominal charge were recognised during 2009/10 and are still held at 31 March 2010, their carrying amount shall be adjusted to the lower of cost and current replacement cost as at that date. Any previous adjustment to their carrying amount shall be reversed.

Where inventories that have been purchased on deferred settlement terms beyond normal credit terms, are held at 31 March 2010, the carrying amount of the inventories shall be adjusted with the difference between the purchase price for normal credit terms and the amount paid. The resultant deferred debit (in effect the financing element of the arrangement) shall be written down to reflect the period of credit covering 2009/10 and recognised as interest in the Surplus or Deficit on provision of services.

Where inventories acquired through a non-exchange transaction recognised during 2009/10 were sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any corresponding credit to match the inventories sold or used shall be charged to Surplus or Deficit on provision of services. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

Where inventories to be provided at no charge or for a nominal charge, were recognised during 2009/10 and sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

## **5.2 Work in Progress (Construction Contracts)**

### **5.2.1 Introduction**

5.2.1.1 Authorities shall account for work in progress (construction contracts) in accordance with *IAS 11 Construction Contracts*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

5.2.1.2 *IPSAS 11 Construction Contracts* is based on *IAS 11*, and provides additional guidance for public sector bodies.

5.2.1.3 This section of the Code applies to all construction contracts in the financial statements of contractors and therefore only applies to construction that authorities are undertaking for their customers. This section of the Code does not apply to assets under construction (ie the authority is the customer rather than the contractor), where the relevant section of the Code shall apply (see chapter 4 section 1 or chapter 4 section 4).

5.2.1.4 Construction contracts entered into by local authorities may be established on a commercial basis or a non-commercial full or partial cost recovery basis. In these cases, the primary issue in accounting for construction contracts is the allocation of both contract revenue and contract costs to the reporting periods in which construction work is performed.

#### *Interpretation and adaptation for the Public Sector Context*

5.2.1.5 *IPSAS 11* includes a number of public sector interpretations which the Code has adopted. The interpretations are as follows

#### Scope

- 'Cost based' and 'non-commercial contracts' are within the scope of construction contracts

#### Definitions

- The definition of construction contract includes 'binding arrangements' that do not take the form of a legal contract

#### Recognition of expected losses

- The requirement to recognise an expected deficit on a contract immediately it becomes probable that contract costs will exceed total contract revenues applies only to contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to that contract.

### **5.2.2 Accounting Requirements**

#### *Definitions*

5.2.2.1 *Construction contract* is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and

function or their ultimate purpose or use. Construction contracts include contracts for the rendering of services which are directly related to the construction of an asset (for example those for the services of project managers and architects), contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

5.2.2.2 *Contractor* is an entity that performs construction work pursuant to a construction contract.

5.2.2.3 Further definitions of fixed price contract, cost plus contract and cost based contract are contained in *IAS 11 and IPSAS 11*.

*Combining and segmenting construction contracts*

5.2.2.4 The requirements of this section of the Code usually apply to each construction contract. However, in certain circumstances, it is necessary to apply this section of the Code to the separately identifiable components of a single contract or to a group of contracts. The criteria for each of these situations are set out in paragraphs 5.2.2.5 – 5.2.2.7 below.

5.2.2.5 When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:

- Separate proposals have been submitted for each asset;
- Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- The costs and revenues of each asset can be identified.

5.2.2.6 A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:

- The group of contracts is negotiated as a single package;
- The contracts are so closely interrelated that they are, in effect, part of a single project with an overall margin, if any; and
- The contracts are performed concurrently or in a continuous sequence.

5.2.2.7 A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset shall be treated as a separate construction contract when:

- The asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or
- The price of the asset is negotiated without regard to the original contract price.

*Contract Revenue*

5.2.2.8 Contract revenue shall comprise:

- The initial amount of revenue agreed in the contract; and
- Variations in contract work, claims and incentive payments to the extent that; it is probable that they will result in revenue, and they are capable of being reliably measured.

5.2.2.9 Contract revenue shall be measured at the fair value of the consideration received or receivable. Estimates of contract revenue shall be revised as events occur and uncertainties are resolved.

*Contract costs*

5.2.2.10 Contract costs shall comprise:

- Costs that relate directly to the specific contract;
- Costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- Such other costs as are specifically chargeable to the customer under the terms of the contract.

*Recognition of contract revenue and expenses*

5.2.2.11 When the outcome of a construction contract can be estimated reliably, the percentage of completion method shall be used to recognise revenue and expenses, at the end of the reporting period. An expected deficit on a construction contract to which paragraph 5.2.2.18 applies shall be recognised as an expense immediately in accordance with paragraph 5.2.2.18.

5.2.2.12 In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- Total contract revenue, if any, can be measured reliably;
- It is probable that the economic benefits or service potential associated with the contract will flow to the entity;
- Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and
- The contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

5.2.2.13 In the case of a cost plus or cost based contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- It is probable that the economic benefits or service potential associated with the contract will flow to the entity; and

- The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.
- 5.2.2.14 Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit which can be attributed to the proportion of work completed.
- 5.2.2.15 The percentage of completion may be assessed based on, for example, costs incurred for work performed to date, surveys of work performed or completion of the physical proportion of the contract work. Progress payments and advances received from customers often do not reflect the work performed.
- 5.2.2.16 When the outcome of a construction contract cannot be estimated reliably:
- Revenue shall be recognised only to the extent of contracts costs incurred that it is probable will be recoverable; and
  - Contract costs shall be recognised as an expense in the period in which they are incurred.
- 5.2.2.17 When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract shall be recognised in accordance with paragraph 5.2.2.11 rather than in accordance with paragraph 5.2.2.16 above.

*Recognition of expected losses*

- 5.2.2.18 In respect of construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, when it is probable that total contract costs will exceed total contract revenue, the expected deficit shall be recognised as an expense immediately.

**5.2.3 Statutory Accounting Requirements**

- 5.2.3.1 There are no statutory accounting requirements in relation to construction contracts.

**5.2.4 Disclosure Requirements**

- 5.2.4.1 Disclosure of accounting policies in relation to construction contracts is required (see section 3.4 of the Code).

- 5.2.4.2 Having regard to paragraph 3.5.2.23 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to construction contracts:

- (1) An authority shall disclose:
  - (a) the amount of contract revenue recognised as revenue in the period;
  - (b) the methods used to determine the contract revenue recognised in the period; and

- (c) the methods used to determine the stage of completion of contracts in progress.
- (2) An authority shall disclose each of the following for contracts in progress at the balance sheet date:
  - (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
  - (b) the amount of advances received; and
  - (c) the amount of retentions.
- (3) An authority discloses any contingent liabilities and contingent assets in accordance with chapter 8 section 2. Contingent liabilities and contingent assets may arise from such items as warranty costs, claims, penalties or possible losses.

### **5.2.5 Statutory Disclosure Requirements**

5.2.5.1 There are no statutory disclosures required in relation to construction contracts.

### **5.2.6 Changes since SORP 2009**

- 5.2.6.1 The SORP includes the broader scope of *SSAP 9 Stock and Long Term Contracts*, which includes contracts for the 'provision of services'. Contracts for the provision of services which are directly related to the construction of the asset are covered by this section of the Code (for example the services of project managers and architects). Provision of services other than those directly relating to the construction of the asset are covered by chapter 3 section 1 of the Code which refers back to the principles in this section of the Code (see *IAS 11* and *IAS 18*). As a result there is expected to be no differences with regard to the accounting of contracts for the 'provision of services'.
- 5.2.6.2 The SORP follows a similar approach to the 'percentage of completion method' with the adoption of *FRS 5 Application Note G Revenue Recognition* which allows a similar method, but specifically only permits revenue to be recognised once the authority has obtained the right to consideration as a result of performing an identifiable element of its contractual obligations. The Code may therefore allow earlier recognition of contract revenue, however this is not expected to be common.

### **Transition arrangements – Work In Progress (Construction Contracts)**

There are expected to be no transition issues arising from construction contracts albeit it may be necessary to recognise contract revenue in earlier periods than under the SORP.

## **5.3 Trade and other Receivables**

### **5.3.1 Introduction**

5.3.1.1 Authorities shall account for trade and other receivables in accordance with *IAS 18 Revenue*, *IPSAS 23 Revenue from Non-Exchange transactions (Taxes and Transfers)* and *IAS 39 Financial Instruments: Recognition and Measurement*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

5.3.1.2 *IPSAS 9 Revenue from Exchange Transactions* is based on *IAS 18*, and provides additional guidance for public sector bodies.

5.3.1.3 This section of the Code must be read in conjunction with section 2.7 (revenue recognition) and section 7.3 (Accounting for Financial Assets After Initial Recognition) of the Code.

#### *Interpretation and adaptation for the Public Sector Context*

5.3.1.4 No interpretations or adaptations of *IAS 18* and *IPSAS 23* are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of trade and other receivables.

5.3.1.5 *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'.

5.3.1.6 The Code includes an interpretation of *IAS 39* as follows:

#### *Recognition and measurement*

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

### **5.3.2 Accounting Requirements**

#### *Definitions*

5.3.2.1 *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.

5.3.2.2 *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.

5.3.2.3 *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 approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

5.3.2.4 *Revenue* is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

5.3.2.5 *Trade and other receivables* are financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

#### *Recognition and measurement*

5.3.2.6 Trade and other receivables 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.

5.3.2.7 Trade and other receivables shall be recognised and measured at the fair value of the consideration receivable when revenue has been recognised under chapter 3 section 1, except for a financial asset that is measured under chapter 7 of the Code.

5.3.2.8 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 (i.e. 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 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 of the Code).

5.3.2.9 There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions i.e. revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable (see chapter 7).

5.3.2.10 In the event that consideration has been paid in advance of the receipt of goods or services other benefit, an authority shall recognise a debtor (i.e. payment in advance) in respect of that outflow of resources.

### **5.3.3 *Statutory Accounting Requirements***

5.3.3.1 There are no statutory accounting requirements in relation to trade and other receivables.

### **5.3.4 *Disclosure Requirements***

5.3.4.1 Disclosure of accounting policies in relation to trade and other receivables is required (see section 3.4 of the Code).

5.3.4.2 Having regard to paragraph 3.5.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to trade and other receivables:

- (1) An analysis of the amount of trade and other receivables between:
  - a) central government bodies;
  - b) other local authorities;
  - c) NHS bodies;
  - d) public corporations and trading funds;
  - e) bodies external to government.
- (2) Disclosures as set out in the Financial Instruments section (see chapter 7), where payment is on deferred settlement terms.

### **5.3.5 *Statutory Disclosure Requirements***

5.3.5.1 There are no statutory disclosures required in relation to trade and other receivables.

### **5.3.6 *Changes since SORP 2009***

5.3.6.1 There have been no changes in accounting for trade and other receivables since SORP 2009.

## **Transition arrangements – Trade and other Receivables**

There are expected to be no transition issues arising from trade and other receivables.