

Comments on Exposure Draft of ASLB 23

Revenue from Non-Exchange Transactions (Taxes and Transfers)

PARAGRAPH 6 – ENTITY COMBINATION

Governments may reorganise the local bodies, merging some local bodies and dividing other entities into two or more separate entities. An entity combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Entity Combinations should be accounted for in accordance with ASLB on 'Entity Combination'.

Comment:

Para 6 provides the broad meaning and understanding of 'Entity Combination'. The 2nd line in para states 'An entity combination occurs when two or more operations are brought together to form one reporting entity.' Demerger or spin off also forms part of entity combination activities. Accordingly, these should be incorporated in para 6.

PARAGRAPH 36 - CONTINGENT ASSETS

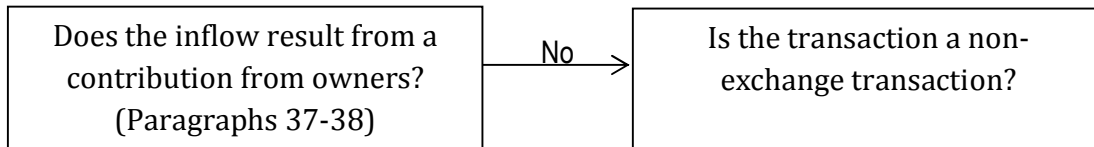
An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset to be dealt with in ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'.

Comment:

ASLB 19 '*Provisions, Contingent Liabilities and Contingent Assets*' provides an example of contingent asset which involves exchange transaction. Example of contingent asset under non exchange transaction will provide a better understanding of the concept and practical implementation of the same.

FLOWCHART GIVEN ON INITIAL ANALYSIS OF INFLOW OF RESOURCES

On the right arrow to the box 'Does the inflow result from a contribution from owners? (Paragraphs 37-38)' word 'No' is missing. It should be like:



It has been stated in point 42 that an **“An asset acquired through a non-exchange transaction should initially be measured at its fair value as at the date of acquisition”**. The standard should define the methods of deriving fair value like of an asset like book value, DCF, or arms length etc.

In relation to advance receipt of taxes, it has been stated in para 66 that “Consistent with the definitions of ‘assets’, ‘liabilities’ and the requirements of paragraph 59, resources for taxes received prior to the occurrence of the taxable event are recognised as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity’s entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied (see paragraph 59), notwithstanding that the entity has already received an inflow of resources.”

Many a times the taxes are collected on time basis say property taxes etc which are annual or periodic in nature. However, the local bodies are incurring expenses for maintenance of assets on monthly basis. Hence, standard should address the mismatch of accrual basis of accounting. Say for example, the taxable event is on December 2017 & body has collected one year tax in advance, then suitable revenue should be recognized for the period January 2018 to March 2018, since the body must have incurred expenses for the captioned period.