



## Chapter 3


# Nonexchange Transactions

## ❖ Timing of Recognition

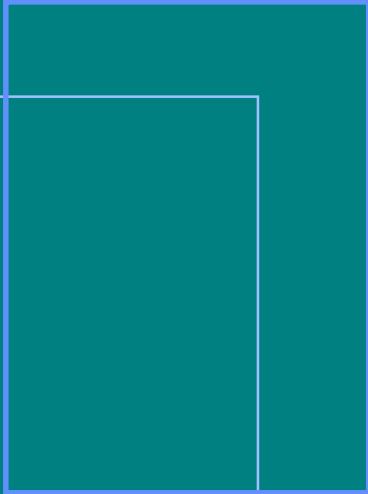
# Nonexchange Transaction


## Definition:

- ◆ Give (receive) value without directly receiving (giving) equal value in return.



# Classes of Nonexchange Transactions



- ◆ **Derived Tax Revenues**
    - ◆ **Assessments Imposed on Exchange Transactions**  
E.G. Income Tax, Sales Tax
- 

## Classes of Nonexchange Transactions Cont.

- ◆ Imposed Nonexchange Revenues
  - ◆ Assessments Imposed on Nongovernmental Entities in Nonexchange Transactions  
E.G. Property Taxes

# Governmental-Mandated Revenues

- ◆ Different Levels of Government
  - ◆ Resources Provided with Purpose Restrictions
- E.G. Federal Programs States Mandated to Perform



# Voluntary Nonexchange Transactions

- ◆ Willingly Enter Legislative or Contractual Agreement  
E.G. Grants and Private Donations

## Additional Factors

- ◆ Time Requirements:
  - ◆ When Resources Used or May Begin
  - ◆ Affects Timing of Recognition

# Purpose Restrictions

- ◆ How to Use Resources
- ◆ No Effect on Timing of Recognition
- ◆ Net Assets, Equity, Fund Balance Restricted/Reserved



# Basis of Accounting

- ◆ Accrual vs. Modified Accrual
- ◆ No Effect on Recognition Timing For Assets/ Liabilities and Expense/ Expenditures
- ◆ Does Affect Revenue Recognition

# Recognition Standards with Examples

- ◆ **Derived Tax Revenues:**
  - ◆ **Underlying Transaction Occurs or Resources Received Whichever First**
  - ◆ **E.G., State Imposes Retail Tax; Weekly Remittance**

## Recognition Standards with Examples Cont.

- ◆ Recognize when Exchange Occurs, Measurable and Realizable for Assets and Revenues
- ◆ Requires Year-End Estimation

## Recognition Standards with Examples Cont.

- ◆ E.G., City Imposes Hotel Tax on Guests; Weekly Remittance; Terminates in Decade, Use for Construction of Convention Center
- ◆ Recognize when Hotel used by Guest



## Recognition Standards with Examples Cont.



- ◆ Estimation Procedures
- ◆ Purpose Restriction Requires Disclosure of Reserved/  
Restricted Fund Balance/  
Retained Earnings

# Imposed Nonexchange Revenues

- ◆ Recognize Assets when Enforceable Legal Claim Exists or Resources Received Whichever First
- ◆ Recognize Revenues when use of Resources Required or Permitted

## Imposed Nonexchange Revenues Cont.

- ◆ E.G., City Adopts Property Tax Levy Ordinance, FY end 4/30/20X2, Lien Date 1/1/X1, Tax Collected 3/1/X1 and Later
- ◆ Recognize Receivable and Liability on 1/1/X1
  - ◆ Recognize Revenue During 5/1/X1 – 4/30/X2


## Imposed Nonexchange Revenues Cont.

- ◆ E.G., State Mandates Repairs and Upgrades for County Environmental Facilities, Grants on Per Capita Basis, Used During State F/Y Ending 6/30; Counties must Dedicate % of Property Tax Revenue

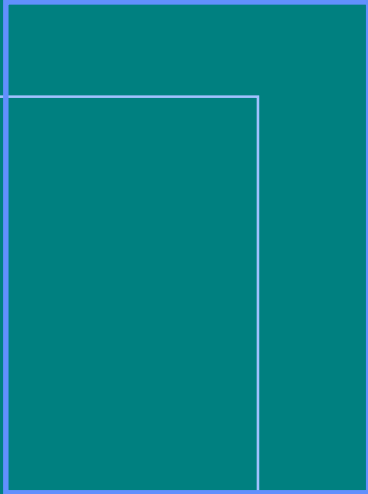


## **Imposed Nonexchange Revenues Cont.**


- ◆ **Recognize Revenue when Eligibility Met; July 1 Assuming Tax Dedication**
- ◆ **Reservation/Restriction in Financial Statements**



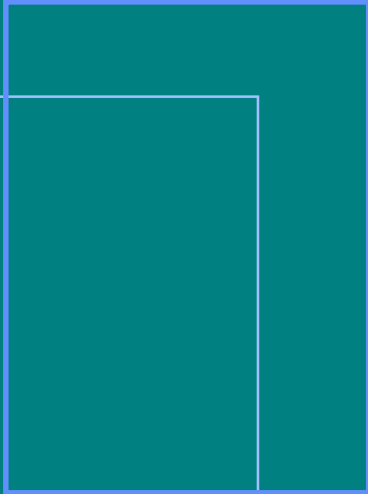
## Government-Mandated and Voluntary Nonexchange Revenues




- ◆ Recognize Assets When Eligibility Met or Resources Received, Whichever is First
- ◆ Recognize Revenues, Expenses/Expenditures When Eligibility Met



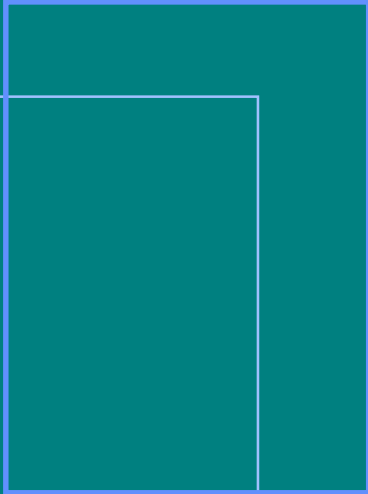
## **Government-Mandated and Voluntary Nonexchange Revenues Cont.**



- ◆ **E.G., State Reimburses School Districts for Special Education Costs Incurred at Local Level. Maximum Amount of Reimbursements Limited, Based on Quarterly Reports.**



## **Government-Mandated and Voluntary Nonexchange Revenues Cont.**



- ◆ **Recognize Receivable and Revenue  
in School Year Allowable Cost  
Incurred**



## Government- Wide F/S Format



- ◆ Expenses 1<sup>st</sup> (Direct vs. Indirect)
  - ◆ Revenues by Specific Program 2<sup>nd</sup>
  - ◆ Net (Expense) Revenue 3<sup>rd</sup>
  - ◆ General Revenues 4<sup>th</sup>
- 