This accounting policy paper is based on IPSAS 1 Presentation of Financial Statements and the Conceptual Framework for General Purpose Reporting by Public Sector Entities, as adopted by the Treasury of the Republic of Cyprus.

Grants and Other Transfers

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1. INTRODUCTION

1.1 GRANTS AND OTHER TRANSFERS

Grants and other transfers are assistance in the form of a transfer of *resources to individuals and entities,* ***not*** *directly* ***in exchange*** *for goods and services.*

Public sector entities incur large amounts of expenses arising from non-exchange transactions, in pursuit of their policy and service delivery objective***. Non-exchange transactions*** are transactions in which 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. Grants and other transfers can be considered as non-exchange transactions, because an entity gives value to another entity without receiving equal value in exchange. Examples of expenses arising from non-exchange transactions are transfers such as subsidies granted to beneficiaries. Expenses such as this, that are unique to organisations like the public sector entities, require distinctive accounting criteria.

Grants and other transfer payments are presented on the face of the Statement of Financial Performance (as per Accounting Policy on Presentation of Financial Statements).

1.2 OBJECTIVES

The objective of this accounting policy is to propose the accounting treatment and disclosure for grants and other transfer payments. The aim of this policy is to provide technical accounting guidance for the preparation of financial statements regarding grants and transfers, so as to enable the financial statements to give a true and fair view of the financial performance and financial position of the entity. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

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1.3 SCOPE

This accounting policy applies to the accounting treatment of all grants and other transfer payments in the financial statements of the government of the Republic of Cyprus and its consolidated entities, as these are defined in this accounting policy.

Grants and transfers received and social benefits are outside the scope of this accounting policy (see Accounting Policy on Revenues from Non-Exchange Transactions (Taxes and Transfers) and Accounting Policy on Social Benefits respectively).

1.4 TYPES OF GRANTS AND TRANSFERS

1. Grants and other transfers are classified as:
   a. **General grants** with no performance obligation (e.g. to finance the operating activities of an entity)
   b. **Specific grants** which include detailed conditions and performance obligations on the part of the recipient (e.g. a research grant, a grant under agreement that the recipient has the right to the grant if specific eligibility criteria are met)
   c. **Other transfers** that may be related to specific and irregular events (e.g. urgent assistance provided to individuals and or households following a hurricane or earthquake). Other transfers includesubscriptions to international organisations, such as IMF, UN and ILO.

2. Grants and other transfers may be given as assistance in the form of transfer of resources to:
   - Other public sector entities (e.g. to municipalities, universities)
   - Non-public sector entities
   - Individuals / households (other than those classified as Social Benefits)
   - Foreign countries and international organisations

3. Grants and other transfers do not include transactions:
   - that are classified as social benefits
   - where the entity expects to receive goods and/or services directly in return, as would be the case with a purchase/sale transaction
   - where the entity expects to be repaid in the future, as would be the case with a loan; or
   - where the entity expects a financial return, as would be the case with an investment or a loan

1.5 DEFINITIONS

Accrual basis – a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.

Conditions on transferred assets – stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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 entity.

Contingent liability -

(a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation arises from past events, but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability

Control of an asset – arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.

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

Expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

Grants and other transfers are assistance in the form of a transfer of resources to individuals and entities, not directly in exchange for goods and services.

A **liability** is a present obligation of the entity for an outflow of resources that results from a past event.

Material - omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments if users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Non-exchange transactions 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.

Performance obligations - an obligation in a contract or other binding arrangement between an entity and an external party that needs to be fullfilled in order to transfer a resource to that other party. Performance obligations are often explicitly stated in a contract or other arrangement.

Reporting date - the date of the last day of the reporting period to which the financial statements relate.

2. RECOGNITION

Grants and Other Transfers are recognised as expenses in the Statement of Financial Performance in the period during which the events giving rise to the expense occurred, provided that:

- *the transfer is allowed by regulation or an agreement has been signed authorising the transfer; and*
- *any eligibility criteria have been met by the recipient, without any future obligations for repayment; and*
- *the amount can be measured reliably*

1. The amount can be measured reliably, for example, through the eligible amount of the consideration that has been authorised, through invoices/expenditure claims sent by the recipient or, in case of projects, through the project's state of progress that must be adequately documented.

2. Grants and other transfers that are general with no performance obligations are recognised as expenses in the reporting period they become due i.e. upon authorisation.

3. Where grants and other transfers are at the entity's discretion until payment is authorised (e.g. discretionary grants, donations that are optional), the expense is recognised when the payment is authorised.

4. Under the accruals framework, the reporting period at which a grant is recognised may be dependent on whether the recipient has an expenditure claim from the grantor. In many cases, the grant recipient never has a claim from the grantor, and therefore the grant should be attributed to the reporting period at which the payment is made. When a claim is involved, grants shall be recognised as expenses when all requirements and conditions for receiving them are satisfied and the claim is authorised.

5. The time of recognizing grants and other transfers may be influenced by a wide variety of eligibility conditions that have varying legal implications. In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions or milestones (e.g. the prior incurrence of expenses for a specific purpose, the passage of legislation etc). These transfers shall be recognised as expenses when all conditions or milestones are satisfied.

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3. MEASUREMENT

Grants and other transfers are measured at the fair value of the consideration paid or payable.

When a request for payment or an expenditure claim is received and meets the recognition criteria, it shall be recognised as an expense for the eligible amount. The value of the consideration may be indicated from the original payment request amount.

Grants in kind are also measured at their fair value, which may be ascertained by reference to an active market, or by appraisal.

At the reporting date, public sector entities may have liabilities for amounts already due to grant recipients that have not yet been previously recognised. Under the recognition criteria the amount of the expense to be recognised shall be the estimated amount of the transfer obligation (e.g. the portion of the eligible expenses due to the beneficiaries) due for the period.

Accrued expenses can be estimated based on budget information, past experience, beneficiary reporting (progress reports) etc. This information should be a reliable and documented "best estimate" in order to be used.

Where an amount cannot be recognised within the time frame necessary for the preparation of the financial statements, but any of that amount is known with reasonable certainty, it should be recognised as an accrued expense if the outflow of resources is certain. If a material amount cannot be determined with reasonable certainty, this information should be disclosed in the notes of the financial statements.

4. OTHER CONSIDERATIONS

1. Public sector entities may incur expenditure in respect of amounts collected from another organization or third parties. Amounts collected as **an agent** of other third parties, will **not** give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from the collected assets in the pursuit of its objectives.
   A public sector entity shall be categorised as a principal or as an agent of another third party, based on the indications included in the Appendix 1 "*Principal versus*

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Agent Considerations" (extracted from IFRS 15 Revenues from Contracts with Customers)

2. Public sector entities may be engaged in multi-year expenditure programs. Grants may be given for a period that spans several reporting periods. Under these circumstances, the grant expense from the perspective of the grantor is incurred when a present obligation arises in accordance with the contractual clauses of the grant agreement, i.e. when the beneficiary fulfils these conditions.

3. When grant recognition is linked to the increase in liabilities, the criteria for recognition of a liability are relevant. A key issue with respect to this is whether or not a present obligation exists due to a past event (as per Accounting Policy "Provisions, Contingent Assets and Contingent Liabilities).

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5. DISCLOSURES

- Public sector entities shall disclose grants and other transfers on the face of the statement of financial performance. Further details of the grants and transfers may be included within the notes of the financial statements. Any contingent liability shall be disclosed within the notes of the financial statements. Any other disclosures should be reported as per the accounting policy adopted.
- Approved grants that are subject to conditions to be met shall be disclosed within the notes of the financial statements.
- Expenses incurred in respect of grants and other transfers shall be reported separately and shall not be offset, unless required or permitted by an accounting policy.

6. TRANSITIONAL PROVISIONS

No transitional exemptions are provided for the adoption of this Accounting Policy.

7. EFFECTIVE DATE

The rules mentioned above shall be effective for annual financial statements covering periods beginning on or after 1 January 2020.

8. REFERENCES

This accounting policy is based on the following:

IPSAS 1 Presentation of Financial Statements

IPSAS 33 First Time Adoption of Accrual Basis IPSASs

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

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9. APPENDIX

PRINCIPAL VERSUS AGENT CONSIDERATIONS[1]

1. When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligations to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for the other party to provide those goods or services (i.e. the entity is an agent).
2. An entity is a principal if the entity controls a promised good or service before the entity transfers the good or service to a customer. However, an entity is not necessarily acting as a principal if the entity obtains legal title of a product only momentarily before legal title is transferred to a customer. An entity that is a principal in a contract may satisfy a performance obligation by itself or it may engage another party (for example, a subcontractor) to satisfy some or all of a performance obligation on its behalf. When an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred.
3. An entity is an agent if the entity's performance obligation is to arrange for the provision of goods or services by another party. When an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.
4. **Indicators that an entity is an agent** (and therefore does not control the good or service before it is provided to a customer) include the following:
    a. Another party is primarily responsible for fulfilling the contract;
    b. The entity does not have inventory risk before or after the goods have been ordered by a customer, during shipping or on return;
    c. The entity does not have discretion in establishing prices for the other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited;
    d. The entity's consideration is in the form of a commission;

[1] IFRS 15 – Revenues from Contracts with Customers

    e. The entity is not exposed to credit risk for the amount receivable from a customer in exchange for the other party's goods or services.

5. If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the promised good or service to the customer (i.e. the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (i.e. whether the entity is acting as an agent).

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