



Federal Accounting Standards Advisory Board

December 14, 2005

TO: Members of FASAB

FROM: Penny Wardlow, Consultant

THROUGH: Wendy Comes, Executive Director

SUBJECT: Elements: Definitions of Revenues and Expenses – TAB B

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The Board decided earlier in the project that the elements to be defined in the proposed concepts statement on elements of financial statements would be *assets*, *liabilities*, *net position*, *revenues*, and *expenses*. Thus far, the Board has tentatively defined the first three elements as follows:

An **asset** is a resource that embodies economic benefits or services that the federal government can control.

A **liability** is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.

Net position or its equivalent, net assets, is the arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet. Net position may be positive (assets greater than liabilities) or negative (assets less than liabilities).

The Board also has tentatively agreed that, whereas the definitions of assets and liabilities should be based on the essential characteristics of those items, the definitions of net position, revenues, and expenses should be derived from the definitions of assets and liabilities.

This paper discusses revenues and expenses as defined by other standard setters and by the FASAB and proposes definitions for inclusion in the Board's concepts statement. The paper also considers whether gains and losses should be included in the concepts statement as separate elements. The definitions of revenues and expenses by FASAB (in SFFAS 7¹ for revenues and in the Consolidated Glossary for expenses) and those of other standard setters are included in the Attachment to this memo ("Attachment to December 2005 Board memo on revenues and expenses"), for ease of comparison. As will be seen, some of those authorities include definitions of gains and losses in their concepts statements whereas others do not.

FASAB: SFFAS 7

In paragraph 30 (standards section) of SFFAS 7, the FASAB defines revenue as:

. . . an inflow of resources that the Government demands, earns, or receives by donation.

The paragraph indicates that revenue comes from two sources: exchange transactions and nonexchange transactions, and it defines each type of transaction. However, it is clear that the definition of *revenue* is the same whether the transaction is exchange or nonexchange in nature. The distinction is made in order to clarify the applicability of different standards concerning the timing of recognition depending on whether the transaction is exchange or nonexchange. This view – that one definition is appropriate regardless of potential differences in the timing of recognition – is consistent with the Board's conclusion in the Elements project that the definition of *liability* should be the same whether the liability results from an exchange or a nonexchange transaction.

Paragraph 31 of SFFAS 7 indicates that the term *revenue* does not encompass all financing sources of Government reporting entities and cites "most appropriations" as an example of a financing source that is not considered

¹ Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (issued May 10, 1996)

revenue. Paragraph 70 elaborates that “other financing sources” include “appropriations used, transfers of assets from other Government entities, and financing imputed with respect to any cost subsidies.” It is not clear, however, that those particular items are not considered *conceptually* revenues, particularly when paragraph 70 states that, like revenues, these items are “inflows of resources that increase results of operations.”

It may be that the distinction made in SFFAS 7 between revenues and other financing sources is useful for display standards or to clarify the applicability of timing of recognition standards to certain nonexchange transactions. However, it does not appear that there is a conceptual distinction that would support defining other financing sources as a different element from revenues in a concepts statement on elements. If the Board agrees, then the SFFAS 7 definition of revenue would seem to fall short of what is needed in the concepts statement, unless one believes that “donations” include appropriations and that there is something specific about transfers among agencies that would prevent such transfers-in from being reported as agency revenue. (Consolidation would remove the issue in the government-as-a-whole statements.)

Similarly, there does not appear to be a conceptual distinction in SFFAS 7 between *gains* and *revenues* (or between *losses* and *expenses*) that would justify defining gains and losses as separate elements in a concepts statement. Rather, the distinction appears to relate to display considerations and, possibly, a particular financial reporting model that are appropriately addressed in statements of standards. Paragraph 35 of SFFAS 7 states that

When a transaction with the public or another Government entity at a price is unusual or nonrecurring, a gain or loss should be recognized rather than revenue or expense so as to differentiate such transactions.

Paragraph 35 is under the heading “Recognition and Measurement of Exchange Revenue,” so that there seems to be little doubt that gains and losses are revenues and expenses with particular characteristics – they are unusual or nonrecurring. Further, paragraph 44 indicates that, in determining the net cost of operations of the reporting entity during the period,

The net amount of gains (or losses) should be subtracted from (or added to) gross cost to determine net cost in the same manner as exchange revenue is subtracted.

Similarly, paragraph 343 (Basis for Conclusions) states that differences between book value and net realizable value in revaluations of, for example, capitalized

property, plant, and equipment and inventory should be recognized as gains or losses in determining the net cost of operations. This emphasis on inclusion of gains and losses in the net cost of operations suggests that any distinction between revenues/expenses and gains/losses in SFFAS 7 owes more to display and practice considerations than to any conceptual difference between them.

The FASAB does not define expenses in SFFAS 7, but the following definition is in the Consolidated Glossary:

Expense: Outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.

This definition is very similar to the FASB's definition, discussed in the next section.

FASB Concepts Statement 6²

In Concepts Statement 6, the FASB defines revenues, expenses, gains, and losses as follows:

Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations (par. 78).

Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations (par. 80).

Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners (par. 82).

² FASB Concepts Statement No. 6, *Elements of Financial Statements* (December 1985)

Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners (par. 83).

A principal difference between these pairs of definitions (revenues/expenses and gains/losses) and those just discussed for the FASAB is the FASB's distinction between (a) inflows/outflows of resources from "ongoing major or central operations," which result in revenues/expenses, and (b) inflows/outflows from "peripheral or incidental transactions," which, along with the effects of all other events on the entity except revenues/expenses and investments by/distributions to owners, are considered gains/losses. The FASB also uses the concept of "unusual and nonrecurring" (i.e., extraordinary gains and losses) in certain display requirements, but the concept is not part of the general definition of gains and losses.

Although gains and losses are defined separately from revenues and expenses in FASB Concepts Statement 6, the FASB appears to have focused on the usefulness of separate display within a particular model rather than on conceptual differences, as indicated in the Basis for Conclusions:

Since a primary purpose of distinguishing gains and losses from revenues and expenses is to make displays of information about an enterprise's sources of comprehensive income as useful as possible, fine distinctions between revenues and gains and between expenses and losses are principally matters of display or reporting (par. 89).

One difficulty that the FASB cites is adopting a distinction between revenues and gains and between expenses and losses that can be generalized to all entities.

. . . Distinctions between revenues and gains and between expenses and losses in a particular entity depend to a significant extent on the nature of the entity, its operations, and its other activities. Items that are revenues for one kind of entity may be gains for another, and items that are expenses for one kind of entity may be losses for another. . . (par. 88)

Although they make inter-entity comparisons difficult, such entity-specific distinctions between revenues and gains and between expenses and losses may be appropriate and useful to meet certain reporting objectives. However, it does not seem appropriate or feasible to develop entity-specific definitions for a concepts statement. Rather, the FASB has provided general definitions with the

expectation that individual entities will interpret which items relate to “ongoing major or central operations” and which are “peripheral or incidental” in their specific circumstances.

New Zealand – Concepts Statement³ and Australia – SAC 4⁴

The New Zealand and Australian definitions of revenues and expenses are identical to each other and similar in concept and style to those of the FASB. The text is as follows (SAC 4, pars. 111 and 117, and New Zealand Concepts Statement, pars. 7.19 and 7.22):

Revenues are inflows or other enhancements, or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.

Expenses are consumptions or losses of service potential or future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period.

Neither authority has included a definition of gains and losses in its concepts statement. The issue is treated as a matter of display rather than of the definition of elements. The Australian Boards explain their decision as follows (Background and Basis for Conclusions, par. A15, italics added):

The defining of gains and losses separately from revenues and expenses was formally considered by the AASB and PSASB . . . The approach was not supported by the Boards, primarily because of the difficulties of consistently distinguishing inflows and outflows from “ordinary” or “central” operations (such as production or sale of inventories, rendering of services and the provision of finance) from inflows and outflows (such as purchase of plant, collections from debtors and receipt of borrowings) which are not “central” but nevertheless are often essential to the operations of the entity. *Being a matter of display, the presentation of revenues and expenses jointly as “gains” and “losses” is compatible with the concepts in this*

³ *Statement of Concepts for General Purpose Financial Reporting* (1993, revised 2001)

⁴ *Statement of Accounting Concepts No. 4, Definition and Recognition of the Elements of Financial Statements* (1995)

Statement. This display issue will be the subject of a Statement of Accounting Concepts on the display of performance.

One board member dissented from that view, indicating that “the definition of revenues should provide a reasonable basis for distinguishing inflows arising from trading activities from inflows arising from non-trading activities.” In his view, “this distinction is fundamental to conventional performance assessment techniques, such as relating various ‘operating costs’ to various ‘inflows from trading activities’.” Also, “revenues, expenses, gains and losses should be reported separately in the profit and loss or other operating statement.” Further, “*the definitions of the elements should reflect this distinction, rather than for the matter to be addressed at the display level of the conceptual framework, because defining revenues and expenses to include items that may be regarded as ‘gains’ and ‘losses’ may encourage the display of revenues and expenses without being structured in a way that assists performance assessment.*” (italics added) Although the italicized statement calls for a distinction between revenues and gains and between expenses and losses in the concepts statement on elements, the reasoning appears to owe more to display considerations and practical concerns than to a conceptual distinction at the level of principal elements.

Canada – CICA, *Public Sector Accounting* (Sec. 1000.45 – 1000.49)

Canada’s definition of expenses is similar to the FASB’s in concept and style, although it also includes specific examples. The revenue paragraph reproduced below consists only of examples. Based on the material for expenses (general definition and examples) in Sec. 1000, there also should be a general definition of revenues, but it is missing (at least from my copy). Also similar to the FASB is the identification of gains and losses with peripheral or incidental transactions or events. However, unlike Concepts Statement 6, Sec. 1000 indicates that the general definition of expenses specifically applies to losses as well. That also may be the case for gains in the (missing) general definition of revenues, with gains then excluded from the examples of revenues. The definitions in Sec. 1000 are as follows:

Revenues, other than gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of government economic resources yielding rent, interest, royalties or dividends; or receiving contributions such as grants, donations and bequests. Revenues do not include borrowings, such as proceeds from debt issues or transfers from other governmental units in the government reporting entity.

Expenses, including losses, are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from the operations, transactions and events of the accounting period. Expenses include transfer payments due where no value is received directly in return.

Expenses include the cost of economic resources consumed in and identifiable with the operations of the accounting period. For example, the cost of tangible capital assets is amortized to expenses as the assets are used in delivering government programs. . . Expenses do not include debt repayments or transfers to other governmental units in the government reporting entity.

Gains can arise from peripheral or incidental transactions and events affecting a government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

Losses can arise from peripheral or incidental transactions and events affecting a government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

Section 1000 includes no further discussion of revenues, expenses, gains, or losses.

United Kingdom – Statement of Principles for Financial Reporting – Proposed Interpretation for Public Benefit Entities (Chapter 4)

The UK's Accounting Standards Board defines gains and losses, rather than revenues and expenses, and defines them to include "items that are often referred to as 'revenue' and 'expenses'" (par. 4.49).

Gains are increases in residual interest not resulting from contributions from controlling parties in their capacity as controlling parties.

Losses are decreases in residual interest not resulting from distributions to controlling parties in their capacity as controlling parties.

Thus, unlike SFFAS 7, FASB Concepts Statement 6, and the CICA Handbook Sec. 1000, the UK Principles do not distinguish gains from revenues or losses from expenses in the chapter on the definition of elements. Some distinctions among kinds of gains and losses are made from a display perspective in Chapter 7 on "Presentation of Financial Information." For example, "good presentation" in a statement of financial performance should include separate identification of various items, among which are "items that are unusual in amount or incidence judged by the experience of previous periods or expectation of the future" [par. 7.8(d)(i)]. Nevertheless, all items included in the statement are gains or losses; different terms are not used even for specific display requirements.

Sweden – Conceptual Framework for the Preparation of Financial Statements in the Central Government of Sweden

The Swedish definitions of revenues and expenses (par. 69) are quite similar to the definitions of the FASB and the Australian and New Zealand boards, allowing for some differences in terminology.

Revenue is an increase in economic benefits or service potential during an accounting period in the form of payments received, an increase in the value of assets or a reduction in the value of liabilities with a consequent increase in net assets. However, increases in net assets that arise from contributions of capital do not constitute revenue.

Expenses are decreases of economic benefits or service potential during an accounting period in the form of payments, a reduction in the value of assets or an increase in liabilities with a consequent reduction of net assets. However, reductions of net assets that consist of a reversal of additional capital do not constitute an expense.

Sweden does not define gains and losses except through examples. Rather, the board states specifically that "[t]he definition of expenses also includes the concept of loss (par. 72) and "[t]he definition of revenues also includes the concept of profit" (i.e., gain) (par. 75). This is similar to the Canadian view. The examples given in the Swedish document will be familiar to U.S. readers. They include losses from accidents and natural disasters, losses or gains from the sale of fixed assets, and gains or losses from valuation changes. The document also mentions the usefulness of separate display of such items, so presumably the terms *gain* and *loss* are used even though they are not separately defined. However, there is no discussion of what the examples have in common (such as

unusual/non-recurring or peripheral/incidental) that would provide guidance for selecting items to be reported as losses or gains, rather than expenses or revenues.

The Swedish document also indicates that government appropriations are considered revenue to government agencies. That is:

Revenue from appropriations appears in an agency's statement of financial performance, but not in the statement of financial performance in the annual report for central government. Appropriations are the way in which Parliament and the Government distribute government revenue for different purposes, for example to the operations of government agencies and transfers (par. 74).

GASB (tentative definitions)⁵

The GASB currently has a conceptual framework project on defining elements of the financial statements. The board has tentatively adopted the following definitions of revenue ("inflows of resources") and expenses/expenditures ("outflows of resources"), each with a brief accompanying clarification of terms. The GASB has tentatively decided not to use the terms *revenue* and *expenses or expenditures* because the board believes that the proposed concepts statement should be developed at a high conceptual level and should not refer to or be restricted to a particular measurement focus.⁶

An **inflow of resources** is an acquisition of net resources by an entity that is applicable to the reporting period.

The acquisition of net resources involves net resources coming under the control of an entity or net resources becoming newly available to the entity. An acquisition of net resources results in (1) an increase in resources controlled by an entity in excess of any related increase in present obligations of the entity or (2) a decrease in present obligations of the entity in excess of any related decrease in resources controlled by the entity.

⁵ Provided by GASB staff.

⁶ Under current GASB standards, the measurement focus in fund financial statements is on either current financial resources or economic resources, depending on the type of fund. The measurement focus in the government-wide statements is on economic resources.

An **outflow of resources** is a consumption of net resources of or by the entity that is applicable to the reporting period.

The consumption of net resources is a using up of net resources, whether those resources had been under the control of the entity or were used up directly when acquired from an external party. A consumption of net resources results in (1) a decrease in resources controlled by an entity in excess of any related decrease in present obligations of the entity or (2) an increase in present obligations of the entity in excess of any related increase in resources controlled by the entity.

CONCLUSION AND STAFF RECOMMENDATIONS

As noted at the beginning of this memo, the FASAB has agreed that the definitions of revenues and expenses (and net position) derive from the definitions of assets and liabilities and “in assessing whether items meet the definitions of net position, revenues, and expenses, reference should be made to the definitions of their underlying assets or liabilities” (par. 50 of the current draft proposed concepts statement). This is because, in contrast to assets and liabilities, revenues and expenses are accounting constructs that do not have innate or fundamental characteristics that distinguish them other than as increases/decreases in assets or liabilities or changes in net assets.

It is not surprising, therefore, that all the definitions cited in this paper are similar in that regard. Most of them refer separately to inflows/outflows of assets or incurrences of liabilities, although the UK definitions simplify the issue by referring to increases/decreases in residual interest (equity). The GASB also has one-sentence definitions of inflows and outflows of resources expressed in terms of acquisition or consumption of net resources. However, each definition is followed by an explanation that refers separately to increases/decreases in resources or present obligations. Readers may find the one-sentence definitions difficult to understand without these explanations. The FASB refers to net assets in the definitions of gains and losses, but separately to assets and liabilities in the definitions of revenues and expenses.

For the FASAB, adopting the UK approach would result in more succinct definitions of revenues and expenses. The equivalent for FASAB would be to refer to increases and decreases in net position, rather than in net assets or equity, since net position is defined as an element in the proposed concepts statement. However, referring to increases and decreases in net position may be confusing because that element can be positive or negative. In addition, it may

be perceived as placing undue focus on net position, considering it is defined in the concepts statement as simply the arithmetic difference between total assets and total liabilities, without discussing its meaning or interpretation by users of the financial statements. Therefore, staff recommends that the definitions of revenues and expenses refer separately to assets and liabilities, rather than to net position.

Most of the definitions cited in this memo refer to inflows/outflows of resources or economic benefits or service potential – for example, Australia, New Zealand, and FASAB (for revenues, in SFFAS 7). However, the FASB refers directly to assets and liabilities and Sweden and Canada (for expenses) refer to both economic benefits/service potential and assets and liabilities. These approaches result in more lengthy and complicated definitions than may be necessary, considering that revenues and expenses derive from changes in assets, liabilities, or both. Staff recommends that the FASAB refer directly to assets and liabilities, rather than to resources, economic benefits, or services. Readers can consult the definitions of assets and liabilities in the same concepts statement, as needed.

Two additional issues are addressed by some of the authorities cited. One issue is whether gains and losses should be defined separately from revenues and expenses in a concepts statement or whether the definition of gains and losses is a display issue that is appropriately addressed in financial reporting standards. FASB and CICA (Canada) include definitions of gains and losses separate from definitions of revenues and expenses – FASB in a concepts statement and CICA in its Handbook, which addresses accounting principles as well as concepts. FASAB includes definitions of gains and losses as well as revenues in SFFAS 7, which sets standards of accounting for revenues and other financing sources. However, Australia, New Zealand, and Sweden have concluded that gains and losses are not conceptually different elements from revenues and expenses, and have not defined them separately in their concepts statement. The UK board holds a similar view, indicating that items often termed revenues and expenses are included in the definitions of gains and losses.

It is clear that the authorities cited consider gains and losses to be kinds or subsets of revenues and expenses – that is, sub-elements rather than elements on the same level as but conceptually different from revenues and expenses. FASB, for example, indicates that the same items may be reported as revenues/expenses by some entities and as gains/losses by others, depending on their interpretation of what is “major or central” to their operations versus “peripheral or incidental.” FASAB also indicates that certain revenues and expenses may be reported as gains and losses. In all cases, it appears that the purpose of defining gains and losses – whether in a concepts statement or a statement of standards – is to provide for separate display of the results of

certain transactions because of their significance to assessments of performance, even though gains and losses are included in operating results along with revenues and expenses.

Staff recommends that the FASAB include definitions of gains and losses in the concepts statement on elements. Rather, consistent with SFFAS 7, other standard setters' views, and practice, gains and losses should be considered particular kinds of revenues and expenses – subsets or sub-elements, rather than separate elements. Certain revenues and expenses may be separately displayed as gains and losses, as required by a statement of standards, but they are not conceptually distinct elements that should be defined in a concepts statement on elements. If the Board decided to include definitions of gains and losses in the concepts statement on elements, then what would be the explanation for defining subsets of revenues and expenses but not defining subsets of assets, such as capital assets and financial assets, or subsets of liabilities, such as current and noncurrent liabilities? Staff recommends that the Board reaffirm its previous decision that the elements to be defined in the concepts statement are assets, liabilities, net position, revenues and expenses.

The second issue that is addressed by some of the authorities cited is whether the definition of revenues should include government appropriations and the definitions of both revenues and expenses should include intra-governmental transfers. The FASAB in SFFAS 7 defines appropriations and transfers as other financing sources, rather than revenues. However, the Board states that other financing sources are inflows of resources like revenues. Staff believes that, in practice, many regard appropriations as revenues, regardless of whether they are referred to as other financing sources in certain statements. Staff was unable to conclude from SFFAS 7 whether the Board intended other financing sources to be considered an element that is conceptually distinct from revenues, or whether the issue was one of display. Staff recommends that appropriations should be included in the definition of revenues in the concepts statement. Whether appropriations should be separately displayed is an issue for financial reporting standards.

Staff did not find an explanation in SFFAS 7 of why intra-governmental transfers should be excluded from the definitions of revenues and expenses. Again, this may be an issue for display standards. However, staff recommends that the definitions of revenues and expenses in the concepts statement on elements should not exclude intra-governmental transfers.

Proposed Definitions

Reviewing again the definitions covered in this memo, staff concludes that the differences among them are due mostly to wording preferences. An exception is the FASAB definition of revenues in SFFAS 7, which unlike the other definitions specifies kinds of revenues. The result is a more succinct definition than most of the others. However, it does not refer to assets or liabilities and therefore does not provide a link with those elements. Also, staff believes it would be difficult to develop a parallel definition of expenses. Staff recommends that the FASAB adopt definitions of revenues and expenses that are more in line with the parallel approach of the FASB's definitions, but adapted to the federal environment. The following definitions are proposed for the Board's consideration.

A **revenue** is an increase in the federal government's assets, a decrease in its liabilities, or a combination of both from providing goods or services, levying taxes or other impositions, receiving appropriations or donations, or any other activity (excluding borrowing) performed during the reporting period.

An **expense** is a decrease in the federal government's assets, an increase in its liabilities, or a combination of both from providing cash or cash equivalents, goods or services, or any other activity (excluding repayments of borrowing) performed during the reporting period.

**DEFINITIONS OF REVENUES AND EXPENSES
BY THE FASAB, FASB, AND OTHER STANDARD SETTERS**

FASAB

Revenue is an inflow of resources that the Government demands, earns, or receives by donation. (SFFAS No. 7, 1996, par. 30)

Gain (Loss): An inflow (outflow) of resources that is unusual or non-recurring. Gains and losses also may result from revaluations. (Ibid. adapted from pars. 35 and 349)

Expense: Outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period. (Consolidated Glossary)

FASB Concepts Statement No. 6, *Elements of Financial Statements*
(December 1985, pars. 78, 80, 82, and 83)

Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions

and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

Australia – Statement of Accounting Concepts No. 4, *Definition and Recognition of the Elements of Financial Statements* (1995, pars. 111 and 117)

Revenues are inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.

Expenses are consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period.

New Zealand – Statement of Concepts for General Purpose Financial Reporting (1993, revised 2001, pars. 7.19 and 7.22)

The definitions of revenues and expenses are identical to those in Australia's SAC4.

Canada – CICA, *Public Sector Accounting* (Jan. 2003, Sec. 1000.45 – 1000.49)

Revenues, other than gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of government

economic resources yielding rent, interest, royalties or dividends; or receiving contributions such as grants, donations and bequests. Revenues do not include borrowings, such as proceeds from debt issues or transfers from other governmental units in the government reporting entity.

Expenses, including losses, are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from the operations, transactions and events of the accounting period. Expenses include transfer payments due where no value is received directly in return.

Expenses include the cost of economic resources consumed in and identifiable with the operations of the accounting period. For example, the cost of tangible capital assets is amortized to expenses as the assets are used in delivering government programs. . . Expenses do not include debt repayments or transfers to other governmental units in the government reporting entity.

Gains can arise from peripheral or incidental transactions and events affecting a government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

Losses can arise from peripheral or incidental transactions and events affecting a government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

United Kingdom – Statement of Principles for Financial Reporting – Proposed Interpretation for Public Benefit Entities
(2003, Chapter 4)

Gains are increases in residual interest not resulting from contributions from controlling parties in their capacity as controlling parties.

Losses are decreases in residual interest not resulting from distributions to controlling parties in their capacity as controlling parties.

[Note: Par. 4.49 states that “The terms ‘gains’ and ‘losses’ therefore include items that are often referred to as ‘revenue’ and ‘expenses’.”]

Sweden – Conceptual Framework for the Preparation of Financial Statements in the Central Government of Sweden (Jan. 2003, par. 69)

Revenue is an increase in economic benefits or service potential during an accounting period in the form of payments received, an increase in the value of assets or a reduction in the value of liabilities with a consequent increase in net assets. However, increases in net assets that arise from contributions of capital do not constitute revenue.

Expenses are decreases of economic benefits or service potential during an accounting period in the form of payments, a reduction in the value of assets or an increase in liabilities with a consequent reduction of net assets. However, reductions of net assets that consist of a reversal of additional capital do not constitute an expense.

GASB (tentative definitions from current project on elements; source: GASB staff)

An **inflow of resources** is an acquisition of net resources by an entity that is applicable to the reporting period.

The acquisition of net resources involves net resources coming under the control of an entity or net resources becoming newly available to the entity. An acquisition of net resources results in (1) an increase in resources controlled by an entity in excess of any related increase in present obligations of the entity or (2) a

decrease in present obligations of the entity in excess of any related decrease in resources controlled by the entity.

An **outflow of resources** is a consumption of net resources of or by the entity that is applicable to the reporting period.

The consumption of net resources is a using up of net resources, whether those resources had been under the control of the entity or were used up directly when acquired from an external party. A consumption of net resources results in (1) a decrease in resources controlled by an entity in excess of any related decrease in present obligations of the entity or (2) an increase in present obligations of the entity in excess of any related increase in resources controlled by the entity.

[Note: GASB is planning not to use the terms *revenue* or *expense* in the concepts statement on elements in an attempt to be measurement-focus neutral in that document.]