

IMPLEMENTATION OF IPSAS 23 "REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)" IN ROMANIA: THEORETICAL APPROACH FOR LOCAL PUBLIC ADMINISTRATION

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Abstract

In recent decades, governments and public institutions around the world have recognized the need to improve transparency and accountability in the management of public resources. The International Public Sector Accounting Standards (IPSAS) were developed to provide a common framework for financial reporting, maintaining consistency and comparability among public entities globally. In this context, the implementation of IPSAS 23, which focuses on the recognition and reporting of revenues from non-exchange transactions, such as taxes and transfers, is particularly relevant for the Romanian public system. This standard defines clear criteria for the recognition and measurement of revenues from taxes and transfers, thus contributing to more accurate financial reporting and improved financial management in the public sector. In a constantly changing economic environment and in a context where public resources are limited, the adoption and effective implementation of this standard represents an essential step for Romania in aligning with international good practices. The paper analyzes the theoretical framework of the standard according to international and national regulations, evaluating the process of implementation, recognition and reporting of revenues within local public administration. The review of the specialized literature theoretically substantiates the research and facilitates the assessment of the current state of affairs regarding the recognition of revenues from non-exchange transactions, constituting the analytical benchmark for formulating conclusions.

Keywords: IPSAS 23, taxes, transfers, financial reporting, local public administration

JEL Classification: H83, M41, M48

1. Introduction

Public sector accounting reform has been one of the key directions of administrative modernization at the international level in recent decades. Under the influence of the requirements of transparency, fiscal responsibility and harmonization of financial reporting, states have been determined to adopt or align themselves with international standards developed by the International Public Sector Accounting Standards Board (IPSASB). These standards aim to ensure a faithful, comparable and relevant representation of the financial statements of public entities, providing the premises for an administration oriented towards performance, integrity and efficient use of public resources. One of the standards with a major impact on financial reporting in the public sector is IPSAS 23 “Revenue from Other than Exchange Transactions (Taxes and Transfers)”. It addresses a category of revenues that is fundamental for the functioning of public institutions, especially those in local public administration that depend largely on local taxes and transfers received from the state budget. Unlike revenues from exchange transactions, non-exchange revenues are characterized by the fact that the entity does not provide a directly equivalent benefit in exchange for the amounts received, which raises specific recognition, measurement and presentation issues in the financial statements [9], [10].

In Romania, the convergence process towards IPSAS has been ongoing for more than a decade, but the actual implementation is phased and often practical difficulties exceed the regulatory framework [16]. Although national accounting regulations have taken over certain principles from IPSAS, there are still significant differences, especially regarding the timing of tax revenue recognition, the treatment of transfer conditions and the documentation and reporting procedures used by public institutions [5]. The lack of a fully harmonized framework, as well as the diversity of existing practices at the level of city halls, generate risks of non-uniformity in financial reporting and affect comparability between entities [16], [13].

The implementation of this standard has had a positive impact on transparency and accountability in the Romanian public sector, and the detailed and accurate reporting of tax and transfer revenues has improved the clarity and accessibility of financial information for citizens and other stakeholders. At the same time, it has imposed greater responsibility on public entities in the management and reporting of funds, contributing to better fiscal governance.

Through an integrated analysis of the theoretical framework, applicable regulations and data information collected from practical activity, the article contributes to understanding the real degree of convergence to IPSAS 23 in local public administration in Romania.

2. Literature review

The Romanian accounting regulations for the public sector [22] set specific requirements for the Romanian public accounting system. Although elements of IPSAS have been partially taken over in the national regulations, the harmonization is largely formal, with significant differences in recognition and measurement still remaining that may affect comparability and transparency at the local level. The specialized literature provides critical analyses of this harmonization and recommendations for alignment [3].

Public sector accounting and in particular, the implementation of IPSAS Standards, has been studied by many specialists and provides a solid theoretical framework for analyzing how public entities recognize, measure and report their revenues from taxes, fees and transfers. In the context of the modernization of financial governance and the orientation towards transparency and international comparability, the adoption of IPSAS is a topic of intense debate in the international and regional literature [4]. For Romania, the interest in implementing IPSAS 23 is fueled both by the need to align with European practices and by the specific challenges of the local public sector [15].

The literature review highlights both the theoretical foundations and the practical issues that influence the application of the standards in the Romanian public system. Thus, applied research has been carried out on public institutions in Romania that have analyzed to what extent the adoption of IPSAS influences the quality of financial reporting, providing relevant data for the issue under investigation [7], [14]. A critical analysis of the IPSAS adoption process carried out by some authors [1], [2] highlights variables, advantages and disadvantages, useful for the section on the barriers and difficulties of implementing the standards.

A recent research on the effects of IPSAS adoption on the transparency and comparability of public reporting in Nigeria [8] was useful for the global contextualization of the advantages of IPSAS implementation. Another study conducted a comprehensive review of the international literature on IPSAS adoption during the period 2000-2023, providing a global picture of the advantages, limitations and challenges of this implementation [19]. An empirical panel study was also conducted for 107 countries, showing that IPSAS adoption has a significant positive effect on the quality of governance, highlighting the benefits of adoption for transparency and accountability [20]. Another analysis investigated the relationship between IPSAS adoption and economic growth, providing arguments regarding the potential macroeconomic impact of adopting international accounting standards [6], [20].

Comparative research between countries shows that IPSAS implementation is a progressive process, often accompanied by transitional measures, hybrid approaches (cash-accrual) and local adaptations. These observations are essential for assessing the situation in Romania, as expectations regarding implementation difficulties are similar to those observed in other European local administrations [11], [17], [18].

Despite the considerable volume of works dedicated to IPSAS, in the analyzed literature, no detailed empirical studies were found on the implementation of IPSAS 23 at the level of Romanian city halls, comparative analyses between different categories of city halls (communes, cities, municipalities), quantitative assessments on the impact of the application of IPSAS 23 on financial

indicators, studies on the perceptions of local professionals (accountants, economic directors) or analyses on the costs and resources necessary to implement the standard. While the theoretical framework is well defined at international level, in Romania the implementation of IPSAS 23 at the level of city halls is often limited by the need to prioritize compliance with national fiscal legislation to the detriment of international accounting legislation. These gaps justify the carrying out of this study, which should provide relevant contributions both for the academic environment and for the accounting practice of local public administration.

3. Brief description of IPSAS 23

IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)”, provides guidance on the recognition and reporting of revenue from taxes and transfers in the public sector. The primary objective of this standard is to ensure that revenue and transfers are recognized fairly and transparently so that they faithfully reflect the economic and legal reality of the transactions.

IPSAS 23 addresses the issues necessary for the recognition and measurement of revenue from non-exchange transactions, including the identification of contributions from owners [23]. In terms of scope, the standard should be used by all entities that prepare and present financial statements on an accrual basis of accounting for revenue from non-exchange transactions.

In public sector entities, revenue may arise from both exchange transactions and transactions that do not involve a direct exchange of value. However, most of their income comes from non-exchange transactions, such as taxes and transfers. IPSAS 23 regulates precisely the way in which these incomes and transfers are recognized and reported, ensuring a fair and transparent presentation, in accordance with the time and conditions of their receipt.

Transfers can be both monetary and non-monetary (including subsidies, donations, inheritances, debt cancellations, goods and services received in kind, gifts, fines or portions of concessional loans received, according to IFAC, 2024). The correct application of IPSAS 23 is based on two fundamental elements: the recognition of assets and the exercise of control over them.

According to the standard, taxes are recognized when they become payable - that is, when the legal obligation to pay arises and the public authority acquires the right to collect the respective amounts. Revenue is recognized in the period in which it is realizable and measurable, that is, when it is generated and there are no significant uncertainties related to its collection.

Transfers, defined as amounts of money transferred between public entities without direct consideration, can be unconditional or conditional, depending on the requirements imposed on their use. IPSAS 23 requires that they be recognized when they are received or when the right to the transfer becomes exigible, in accordance with the contractual terms. An entity will recognize an asset arising from a transfer when the resources meet the definition and criteria for recognizing an asset. Because the entity providing the transfer does not receive equivalent value in return, these transactions are considered non-exchange. Transferred assets must be measured at fair value at the date of acquisition, and entities must develop accounting policies consistent with IPSAS for their recognition and measurement.

The Ministry of Finance played a key role in the process of adopting IPSAS 23, by developing the necessary legislation, drafting and promoting related normative acts, coordinating professional training programs for accounting and auditing personnel in the public sector, as well as overseeing the implementation of the standard. This included monitoring public entities’ compliance with the requirements of IPSAS 23 and providing technical and methodological support where necessary.

4. IPSAS 23 implementation mechanisms in the local public administration (City halls)

4.1. The Implementation Process

The city halls began the process of implementing IPSAS 23 with a detailed assessment of existing systems and practices in revenue reporting. This included:

- *Analysis of accounting systems regarding tax collection processes:* Assessing how taxes are currently recorded and reported.
- *Document review:* Reviewing current reporting policies and procedures to identify any gaps in compliance with IPSAS 23.
- *Expert consultation:* Working with public accounting consultants to obtain recommendations on necessary adjustments.
- *Transfer review:* Examining how transfers from central government and other entities are managed and reported.

After the initial assessment, the municipalities established the following main objectives for implementation:

- *Alignment with IPSAS 23:* Ensuring that all revenues are reported in accordance with the IPSAS 23 standard.

- *Process automation:* Improving the efficiency and accuracy of revenue reporting by integrating an advanced IT system.

- *Staff training:* training staff on the requirements of IPSAS 23 and the new processes implemented.

The IT system was adapted and in order to align revenue reporting with the requirements of IPSAS 23, the city halls made the following changes:

- ✓ *ERP system update* - implementation of an ERP (Enterprise Resource Planning) system that would integrate and automate revenue reporting processes.

- ✓ *internal procedures modification* - updating them to reflect the requirements of IPSAS 23, including modification of reporting formats and revenue registration forms.

The city halls decided to adopt an ERP system to manage and report revenues in accordance with IPSAS 23. The steps included in this stage were the following:

- ✓ *vendor selection* - identifying and selecting an ERP solution provider that offers adequate functionalities for revenue management and reporting in accordance with IPSAS 23.

- ✓ *system customization* - configuring the ERP system to meet the specific needs of the municipalities, including adapting forms and reports to reflect the requirements of IPSAS 23.

- ✓ *data migration* - transferring historical data from the old systems to the new ERP system, ensuring that the information is correct and complete.

A crucial aspect of the implementation was the training of the staff responsible for revenue management and reporting. Therefore, the city halls organized training sessions for the financial and accounting staff involved in revenue management and reporting to familiarize them with the requirements of IPSAS 23. This included:

- *specific training on IPSAS 23*, during which training courses were held that covered essential aspects of IPSAS 23, including methods of revenue recognition and measurement.

- *use of the ERP system*, which consisted of training staff in using the new ERP system, including generating reports and using specific functionalities for revenue management.

- *practical workshops*, which provided concrete examples from practical activity and case studies to understand the application of the standard in real situations.

Regarding support and resources, manuals and guides were made available and continuous assistance was offered. An attempt was also made to provide technical support and continuous consultancy to help staff in solving problems and questions related to reporting and using the system.

At the same time, the city halls updated their internal policies and procedures to align with the requirements of IPSAS 23, aimed at modifying the procedures to reflect the reporting requirements on tax and transfer revenues and implementing internal controls, namely, to ensure the accuracy and compliance of revenue reporting.

To manage revenue from transfers, the municipalities implemented processes for managing and reporting transfers received from other public entities. Thus, transfers were classified according to their type and purpose (e.g., transfers for specific projects vs. general transfers) and reported according to the requirements of IPSAS 23. Reports were created that detail the use of funds received through transfers, including the projects financed and their impact on the local budget.

The city halls implemented monitoring and evaluation mechanisms to rate the impact of the application of IPSAS 23, through:

- *performance indicators* - to measure the efficiency and accuracy of revenue reporting. This includes checking the accuracy of reports and assessing the impact on budget planning.
- *internal audits* - to verify compliance with IPSAS 23 and to identify potential implementation issues.

In order to improve communication with citizens and other stakeholders, municipalities have adopted measures to ensure transparency and accessibility of financial information through the publication of financial reports and information sessions. These are published on the official website of the municipalities, providing easy access to detailed information on tax and transfer revenues. Information sessions have also been organized for citizens and other stakeholders to explain the impact of IPSAS 23 on revenue management and to answer questions related to financial reporting.

4.2. Revenue recognition and measurement

The city halls face specific challenges in managing tax and transfer revenues. These revenues are essential for financing the municipality’s current activities, such as local public services, infrastructure and other community development projects. Thus, several types of taxes are collected, including:

- *property tax* - a tax levied on owners of real estate, including buildings and land;
- *income tax* - in some cases, taxes on the income of individuals and legal entities, if applicable at the local level;
- *taxes on goods and services* - indirect taxes that may include taxes on certain local goods and services.

The implementation of IPSAS 23 “Revenue from Non-Exchange Transactions (Taxes and Transfers)” within city halls leads to the recognition of income tax by completing the following steps:

1. *Identifying the moment of the taxable event.* The taxable event for income tax is defined as the moment when the taxpayer earns income that is subject to taxation. This is the moment when the tax obligation arises and the right of the public entity (in this case, the city hall) to collect the tax arises.

2. *Revenue recognition.* Tax revenue is recognized when the taxable event has occurred and the amount can be measured reliably. In the case of income tax, this means that the city hall would recognize revenue when taxpayers within its jurisdiction have generated income that is taxable and when the amount of the tax can be estimated based on available information.

3. *Measurement of amounts recognized.* Income tax revenue is recognized based on an estimate of the amounts that will be collected, taking into account the degree of effective collection, reductions or exemptions granted, and the possibility of non-collection (for example, due to taxpayer insolvency). The assessment is made at the estimated gross amount of taxes due, and adjustments are made for doubtful debts if it is estimated that part of the taxes due will not be collected.

4. *Accounting recording.* In the accounting of city halls, at the time of tax recognition, an entry is made in the debit of a tax receivables account (representing the amount owed by taxpayers) and in the credit of a tax revenue account. If there is significant uncertainty regarding the amount that will be collected, an adjustment for losses on receivables is recognized.

5. *Treatment of differences and adjustments.* During the reporting period, necessary adjustments may arise based on updated information regarding the actual collection of the tax. These adjustments are reflected in accounting by adjusting the receivables and the corresponding revenues.

6. *Presentation in financial statements.* The city halls present in their financial reports all recognized tax revenues, as well as any relevant tax receivables, but do not clearly present any

significant adjustments or uncertainties related to tax collection. All this information is found in the revenue execution accounts that are published on the municipalities' websites.

4.3. Transfer recognition and measurement

As local public entities, city halls can receive various types of transfers between public entities. These transfers are essential for the financing and implementation of local projects, improving infrastructure and public services. There are the following types of transfers between public entities that city halls can receive

➤ **Government transfers** represented by:

✓ *subsidies for infrastructure projects* are funds allocated from the state budget for the construction and improvement of local infrastructure, such as the construction or renovation of roads, bridges, the modernization of the water supply and sewage system and other essential facilities;

✓ *funds for public services* represented by transfers to support basic public services, such as education, health and social protection. They are used to subsidize personnel expenses and to improve the quality of services;

✓ *subsidies for regional development projects* are funds intended for regional and economic development, which can be used for projects that contribute to the economic and social development of the area in which the city hall is located.

➤ **Transfers between local authorities**, consisting of:

✓ *co-financing for joint projects* represented by funds allocated by other local authorities or regions for joint projects involving several entities. These transfers can cover the co-financing costs for contracted regional projects;

✓ *funds for inter-municipal cooperation projects* are funds for cooperation projects between municipalities or between different levels of local public administration, intended to improve the efficiency and coordination of public services (for example, funds for the creation of a waste collection center serving several municipalities).

➤ **Transfers from the European Union** represented by:

✓ *structural and cohesion funds* received from the European Union for regional development and infrastructure projects, within the framework of specific programs. These funds are intended to support the economic and social development of less developed regions (for example, for projects to improve transport infrastructure or to develop environmental and green energy capacities).

✓ *funds for projects financed through the Regional Operational Programme (ROP)* that are intended to support regional development and improve the quality of life in regions that need such development.

For each type of transfer, municipalities must comply with the reporting requirements specified in the applicable agreements and regulations. This includes reporting on the use of funds, the achievement of project objectives and auditing expenditure. In this regard, they must implement monitoring systems to track the progress of projects financed through transfers and to assess their impact on the local community.

The transfers received must be integrated into local planning and budgeting, ensuring the efficient allocation of resources and compliance with project implementation deadlines. Transfers contribute to improving local infrastructure, which has a direct impact on the quality of life of citizens, facilitating access to quality public services and supporting local economic development. Funds intended for public services improve the quality of education, health and social assistance, having a positive effect on the community.

Transfers for regional development and inter-municipal cooperation projects support the economic and social development of the area, generating new opportunities and stimulating investments.

Transfers are recognized when they are received or when the right to receive them becomes due and *transfers are valued* at the gross value of the amounts received or to be received. In the case of conditional transfers, the valuation is based on the probability of the conditions being met, and if there are uncertainties, the valuation may be adjusted.

4. Conclusions

The adoption of IPSAS 23 represents an essential pillar in the process of modernizing the public accounting system in Romania. The transition from cash accounting to accrual accounting, specific to this standard, ensures a true picture of the financial position and performance of public institutions, facilitating international comparability. The implementation of the standard on revenues from non-exchange transactions (taxes and transfers) increases the degree of transparency in the management of public money. This allows citizens and control bodies to understand more clearly the flows of resources that do not directly depend on the provision of commercial services, thus strengthening trust in state institutions. The theoretical analysis carried out demonstrates that the use of IPSAS 23 criteria for recognizing and evaluating revenues minimizes the risk of undervaluing or overvaluing available resources. The clear definition of the moment when a tax or transfer becomes an asset for the city hall is crucial for sustainable budget planning.

At the level of Romanian city halls, the implementation process faces barriers related to the complexity of IT systems and the need for professional training of accounting staff. The difference between the moment of imposition (creation of the receivable) and that of actual collection requires rigorous monitoring in order to correctly reflect receivables in the financial statements.

The implementation of IPSAS 23 is not only a technical compliance, but a management tool. By recognizing revenues from transfers and taxes based on the right to receive those amounts, credit officers can base much more realistic investment and expenditure decisions, adapted to confirmed resources, not only to those collected. A continuous update of national methodological norms is also necessary to reduce discrepancies between local regulations and the specific requirements of IPSAS 23, and the automation of revenue recognition processes within the reporting systems of city halls would reduce human errors and speed up the financial reporting process.

This paper lays the foundation for future research that will aim to evaluate the implementation of the analyzed standard within the city halls of the Jiu Valley.

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