International Public Sector Accounting Standards Board

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 8**
Meeting Location:	Toronto, Canada	
Meeting Date:	December 8–11, 2015	

For:
- ☐ Approval
- ☒ Discussion
- ☒ Information

Revenue and Non-exchange Expenses

Objectives of Agenda Item

1. The overall objective of this combined item is to present to the IPSASB the work that has been done on the revenue and non-exchange expenses projects and seek direction on the way forward for these projects.

Materials Presented

Agenda Item 8.1	Interviews of Preparers
Agenda Item 8.2	Landscape Review - Expenses
Agenda Item 8.3	Exchange/Non-Exchange Classification Approach
Agenda Item 8.4	Performance Obligation Approach
Agenda Item 8.5	Whether to develop Consultation Papers

Action Requested

2. The IPSASB is asked to:
   (a) Provide feedback on the Matters for Consideration in Agenda Paper 8.1;
   (b) Provide feedback on the Matters for Consideration in Agenda Paper 8.2;
   (c) Provide feedback on the Matters for Consideration in Agenda Paper 8.3;
   (d) Provide feedback on the Matters for Consideration in Agenda Paper 8.4; and
   (e) Confirm that consultation papers would be appropriate for both the revenue project and the non-exchange expenses project.

Prepared by: Todd Beardsworth and David Bean (November 2015)

ISSUES PAPER, *REVENUE AND NON-EXCHANGE EXPENSES - INTERVIEWS OF PREPARERS*

Introduction and Background

1. In order to obtain feedback from constituents regarding the specific issues to be addressed within the revenues and non-exchange expenses projects, the project staff conducted interviews of preparers and users.

2. Specifically for the revenues project, the objective of the outreach was to obtain feedback from preparers of public sector financial statements about their experience of accounting for non-exchange revenue under the current International Public Sector Accounting Standards (IPSAS) literature, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The project staff was particularly interested in feedback on the accounting for non-exchange revenue with restrictions, including timing and purpose restrictions.

3. The International Public Sector Accounting Standards Board (IPSASB) currently does not have a standard on accounting for non-exchange expenses. However, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, although it does not directly address non-exchange transactions, applies to a public sector entity that provides resources in non-exchange transactions. The objective of the outreach for the non-exchange expense project were (1) to obtain feedback from preparers of public sector financial statements regarding how the standards have worked in practice and (2) to identify any issues that the IPSASB may need to address.

4. The objective of the outreach to users of public sector financial statements, both for the revenues and the non-exchange expenses projects, was to obtain feedback about whether users are receiving the information required about non-exchange transactions, as well as how this information is used for accountability and decision making purposes. At this time, project staff has not completed enough interviews of users to present results. Attempts to schedule interviews with users are on-going and results will be reported to the IPSASB at a later meeting.

5. This paper presents the methodology applied in the interviews of preparers and its limitations. The paper then presents the research topics and results. The interview materials provided to preparers are included in Appendix A.

Methodology and Limitations

6. The interview protocol materials provided to interview participants in advance of the scheduled interviews were developed through coordinated efforts of the project staff for both teams. Separate interview protocols were developed for preparers and for users.

7. Interview participants were selected through identification of public sector entities that have implemented accrual IPSAS (or that use other accrual standards and refer to IPSASs for items not addressed by those standards). Input was received from IPSASB members related to which public sector entities to contact. Members also provided contact information for representatives of the public sector entities.

8. Interviews of preparers generally were conducted by phone. Representatives from both project teams participated in the interviews as schedules permitted. Some interviews were conducted in person and one interview was conducted via video conference.

9. In addition to the interviews, some respondents also provided written answers to the interview materials with the opportunity for additional follow up verbally if needed.

10. Figure 1 below presents the number of public sector entities with representatives who participated in the interviews and the method by which the interviews were conducted.

Figure 1 – Preparer Interview Participants

	Central Government	Sub-National Government	International Organization	Total
Teleconference	3	1	0	1
Video Conference	1	1	0	2
In Person	1	0	1	2
Written Responses	1	1	1	3
Total	6	3	2	11

11. The interviews were recorded and transcribed; however, interviewees were assured that no public sector entity would be associated with a specific response. The responses to the questions were summarized while retaining as much of the interviewees language as possible for use in analysis and presentation in this paper.

12. A limitation of this interview research approach is the lack of representativeness of the sample to populations of all preparers of public sector entity financial statements using accrual IPSAS (or referring to IPSASs). Efforts were made to select interview participants that prepare financial statements for different sizes and types of entities; however, the participants were not selected using a random process, nor were the findings analyzed using statistical techniques. Consequently, the information obtained from the interviews may be representative of the views of the larger population of preparers, but are not generalizable.

13. Representative comments included in the following sections may be summarized or paraphrased from the interview transcripts.

Research Topics and Results

14. The topics covered in questions for both revenues and expenses were very similar and therefore are presented jointly in this section.

15. To form a base for the discussion, preparers were first asked to identify the types of non-exchange revenues and expenses that exist for the respondent's jurisdiction. Respondents noted the following non-exchange revenues and expenses (items listed in the first category below were mentioned as potential sources of both non-exchange revenues and non-exchange expenses):

Both Non-Exchange Revenues and Non-Exchange Expenses
• Taxes • Grants • Subsidies • In-kind contributions • Transfers • Premises, goods, inventory
Non-Exchange Revenues
• Fines • Voluntary contributions • Assessed contributions • License fees • Refuse charges • Home installation • Business improvement targeted rates • Building consents • Social housing • Membership assessments • Waiver of fees
Non-Exchange Expenses
• Public health or public services, including humanitarian-type aid and unemployment-type aid • Funding to partners for specific programs • Pass-through contributions (governments to citizens) • Concessionary loans • Investment contributions to recipients • Donations

16. After identifying the types of transactions within each respondent's jurisdiction, preparers were then asked to identify any difficulties the preparers had with recognition, measurement, or disclosure of those non-exchange revenues or expenses previously identified by the respondents. Participants noted the following difficulties:

Difficulties Relevant to Non-Exchange Revenues
• Treatment for arrangements that include stipulations and whether those stipulations are conditions or restrictions • Timing of recognition, especially for multi-year pledges received at the beginning of the arrangement • Use of models to estimate accruals and the timing of the taxable events • Correct recording of pass-through transactions, including taxes • Treatment of in-kind services received • Difficulties stemming from the underlying tax legislation as opposed to conceptual issues • Level at which to assess non-exchange or exchange classification (transaction or activity level) • Application of probability of collection at initial recognition or subsequent measurement • Financing of construction projects • Distinguishing between exchange and non-exchange transactions • Analyzing non-standard contribution agreements for recognition and measurement of revenues and liabilities • Treatment of foreign exchange liabilities
Difficulties Relevant to Non-Exchange Expenses
• No issues • Treatment of expenses over multiple years, including contributions and forbearance loans • Application of the “more likely than not” threshold in IPSAS 19 in practice • Defining an onerous contract • Measurement of the expense • Concessionary, forbearance, and conditional loans • Fiscal equalization based on statistical predictions

17. Some representative comments from the interviews involving the difficulties noted above are as follows:

Difficulties Relevant to Non-Exchange Revenues
We have difficulties in determining the nature of a stipulation – especially the stipulation concerning time boundary of resource – as either a condition or a restriction. *** *One of the challenges we face…relates to multi-year pledges. We currently recognize 100% of the revenue up front (unless there are conditions); however, we foresee this changing in the future and would look for clear guidance from the IPSAS Board on the timing of revenue recognition in such cases, with the hope that the underlying process supporting this will not be overly burdensome.*

Difficulties Relevant to Non-Exchange Expenses

Fiscal equalization – calculated in two versions. One is based on the income taxes in the year. Easy for accounting and accrual. Second is based on statistical amounts from prior years. Can be based on mix of inhabitants and income. Can be predictable based on historical trends. Problem under IPSAS 19 is when one city has a one-year increase. Due to statistics, the city may know that they will have an increase in three years based on that year's statistics. Not clear under IPSAS 19 if this should be accrued by city. Guidance in non-exchange standard would be helpful for this transaction.

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Forbearance loans – give money away but do not intend to get back; recorded as expense; issue here of multi-year amounts paid when specified investment conditions are not clear. Should the entire amount be accrued when agreement is made or ¼ per year? Amounts are paid each year, not at the beginning of the agreement, but the decision to not require repayment is made at the beginning of the agreement. Cash flow mirrors intention of funding for multiple years, but no chance to avoid outflow in years 2-4 as decision was already made in year 1.

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The definition of a condition is a very high threshold in IPSAS 23; therefore, we were not able to argue that our advances were subject to conditions sufficient to justify the recording of an asset related to the funds advanced. We feel this is more cash-basis accounting than accrual and is inconsistent with the treatment of multi-year contributions described earlier. The inconsistencies and subjectivity makes it difficult to apply the standards.

18. Preparers were then asked to share their views on the sufficiency of guidance in current IPSAS literature regarding the distinction between exchange and non-exchange revenues and expenses. Although that distinction was noted as a difficulty in the previous question, responses to this specific question were more varied. Some respondents indicated that the current IPSAS literature was sufficient, while other respondents stated that the IPSAS literature was insufficient. Some respondents who indicated the guidance was insufficient noted that, for certain transactions, such as fees and licensing, classifying the transaction as a fee for service or a tax by a different name was challenging.

19. The portion of the interview related to non-exchange expenses also sought to understand certain aspects of the accounting for and reporting of non-exchange expenses that might not be as relevant to the discussion of non-exchange revenues. Given the lack of specific guidance in current IPSAS literature, the questions related to non-exchange expenses also asked respondents if they generally needed to record accruals for non-exchange expense transactions, as well as any guidance the entities may have consulted to determine the proper recording of non-exchange expense transactions.

20. When asked if non-exchange expenses currently required the recording of accruals, respondents reported mixed answers. Some reported that accruals were made if the agreements had full legal force, but were not yet invoiced. Others reported that accruals were recorded if there was a commitment to pay, even if there were no direct benefits. Still others reported that accruals were

disclosed if the goods or services received could be verified as received and the amount was quantifiable. Some respondents indicated that accruals were not being made or were not significant.

21. Respondents also reported a wide range of guidance that had been consulted when the respondents were considering the recording or reporting of these non-exchange expenses. Among the answers were IPSAS 23, IPSAS 25, *Employee Benefits*, and IPSAS 29, *Financial Instruments: Recognition and Measurement*. Some respondents consulted International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*, while others consulted with auditors or accounting firms. Some also consulted commercial law or accounting guidance of a standard setting group within their entity's jurisdiction.

22. The final question of the interview sought to understand how prevalent the occurrence of stipulations, specifically time or purpose restrictions, were imposed on the non-exchange revenues or expenses of the entities. With regard to non-exchange revenues, many respondents indicated that they received resources with time or purpose restrictions. Some respondents indicated that restrictions do not affect the recording of the transactions, but that conditions would affect the recognition. With regard to non-exchange expenses, many respondents with significant non-exchange expenses reported that the resources provided to recipients generally have either a time restriction, purpose restriction, or both. The respondents generally noted that the restrictions do not affect how the transactions are recorded, as there is not typically a refund provision included in the restriction. Failure to comply with restrictions may affect future funding levels, but do not require return of funds. The following comments were taken from the interview responses:

Stipulations Imposed on Non-Exchange Revenues

Almost all the contracts have restrictions. In voluntary contributions agreements with conditions, a liability is recognized and the revenue is not recognized until the liability is fully discharged….Voluntary contributions with restrictions are recorded when the agreement becomes binding.

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We would welcome some clearer guidance and examples in the standard and simplification of conditions, stipulations and restrictions and recognition within the standard or the examples provided that are not government organisations only and recognize multi-year donations and clear requirements/guidance for accounting of those.

Stipulations Imposed on Non-Exchange Expenses

We do request an implementation report from the contractual partner and further grants / instalments are not paid if there is a failure in compliance. However, as disbursements are recognised as an expense, it does not affect recording of a transaction.

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We do request verification of restrictions being met, but the expense is recorded at disbursement, so it doesn't affect the recording.

Summary

23. As shown by the answers provided above, public sector entities engage in a variety of non-exchange transactions, both revenues and expenses. The difficulties noted by the interview participants often varied depending on the types of transactions encountered; however, some common themes were cited among many interview participants.

24. Interview participants generally noted challenges in accounting for and reporting non-exchange revenues that were received in advance for multiple years of funding. Some recipients also noted that accounting for stipulations caused challenges. While some respondents indicated that certain transactions, such as licenses and fees, were difficult to classify as exchange or non-exchange revenue, many respondents did not indicate concern with the conceptual distinction.

25. Interview participants generally did not indicate significant issues with the accounting for or reporting of non-exchange expenses. Concerns raised did indicate that clearer guidance for non-exchange expenses than that provided in IPSAS 19 would be welcome. Many respondents with concessionary or forbearance loans also indicated that the accounting for such loans often was challenging.

26. These results, while not generalizable, will help inform further discussions as the IPSASB considers future guidance for non-exchange transactions.

Matter(s) for Consideration

1. The IPSASB is **asked** if additional interviews of preparers should be conducted. If so, the IPSASB is **asked** to provide suggestions for additional participants.

APPENDIX A: PREPARER INTERVIEW PROTOCOL DOCUMENT

Accounting and Financial Reporting for Non-Exchange Revenues and Non-Exchange Expenses

Outreach Questions for Preparers of Public Sector Financial Statements

Introduction

The IPSASB has recently commenced projects on accounting for revenues (covering both exchange and non-exchange) and accounting for non-exchange expenses (excluding social benefits).

The staff involved in the projects want to understand any issues preparers have with the current requirements in the IPSAS literature, to help focus the work to be done in each of the projects.

Non-exchange transactions are defined in IPSAS 9, *Revenue from Exchange Transactions*, as:

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.

Further information about the revenue project is available here, and further information about the non-exchange expenses project is available here.

Objective of the outreach for non-exchange revenue

IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* is the current standard for accounting for non-exchange revenue (for example, taxes and certain grants). The objective of the outreach is to get feedback from preparers of public sector financial statements about their experience of accounting for non-exchange revenue under the current IPSAS literature. In particular we are interested in feedback on the accounting for non-exchange revenue with restrictions, including timing and purpose (for example, how a grant is required to be used) restrictions.

Non-exchange revenue questions

1. What type of non-exchange revenues do you have?
2. What difficulties do you have with recognition, measurement or disclosure for these revenues based on the current IPSAS literature?
3. In the current IPSAS literature, is there sufficient guidance to distinguish exchange revenues from non-exchange revenues?
4. As a public sector entity that receives resources, how often do those resources have time restrictions or purpose restrictions? How do these restrictions affect the way you record the transaction?

Objective of the outreach for non-exchange expense

The IPSASB currently does not have a standard on accounting for non-exchange expenses. However, IPSAS 19, although it does not directly address non-exchange transactions, applies to a public sector entity that provides resources in non-exchange transactions. There is no other specific guidance to address these non-exchange transactions.

The objective of the outreach is to get feedback from preparers of public sector financial statements regarding how the standards have worked in practice and to identify any issues that the IPSASB may need to address.

Non-exchange expense questions

1. What types of non-exchange transactions do you participate in as a public sector entity that provides resources?
2. Which of these transactions, if any, have you had difficulty accounting for under IPSAS 19? What was the nature of that difficulty?
3. Do you generally need to record accruals (for example, assets or liabilities) for these transactions at year-end? If so, how do you determine the amount of the accrual?
4. When considering the recording or reporting of these transactions, what guidance, if any, have you consulted?
5. As a public sector entity that provides resources, how often do you impose time or purpose restrictions on the resources that you provide to public sector and private sector entities? How do these restrictions affect how you record the transaction, if at all?

ISSUES PAPER, *LANDSCAPE REVIEW - EXPENSES*

Objectives of this Paper

1. This paper provides a review of current IPSASB guidance relevant to expenses. By identifying areas in which current guidance addresses the treatment of expenses, this paper aims to highlight standards that may already sufficiently address the treatment of expenses and therefore be excluded from the scope of the non-exchange expenses project.

2. This paper does not provide a detailed examination of each standard, but rather serves to provide an overview and reference point.

Links to Revenue and Non-Exchange Expenses Projects

3. The IPSASB noted that there would be some overlap between its projects on revenue and on non-exchange expenses.

4. Under current IPSASB guidance, a transaction that is classified as a non-exchange transaction is likely to give rise to non-exchange revenue for one entity and a non-exchange expense for another entity (the counterparty). For example, if the transfer of inventories for no or nominal amounts give rise to revenue for one entity (the transferee), it also would give rise to an expense for another entity (the transferor). When such transactions take place between two public sector entities, whether symmetrical accounting should be considered will be explored as part of the projects.

5. Moreover, if a performance obligation approach is proposed for at least some revenues, the Board may want to consider proposing similar guidance for expense recognition associated with a public sector counterpart (including transactions currently classified as either exchange expenses or non-exchange expenses). This could be accomplished in a separate project or as part of an expanded scope project that would include the current non-exchange expense project. Under either alternative, determining the scope of the project based on the current landscape of IPSASB guidance could be beneficial.

Current IPSASB Guidance

6. Current IPSASB literature contains guidance relevant to the recognition and measurement of expenses in the following standards:

   (a) IPSAS 5, *Borrowing Costs*

   (b) IPSAS 9, *Revenue from Exchange Transactions*

   (c) IPSAS 11, *Construction Contracts*

   (d) IPSAS 12, *Inventories*

   (e) IPSAS 13, *Leases*

   (f) IPSAS 16, *Investment Property*

   (g) IPSAS 17, *Property, Plant, and Equipment*

(h) IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*

(i) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

(j) IPSAS 25, *Employee Benefits*

(k) IPSAS 29, *Financial Instruments: Recognition and Measurement*

(l) IPSAS 31, *Intangible Assets*

(m) IPSAS 32, *Service Concession Arrangements: Grantor*

7. IPSAS 5, *Borrowing Costs*, states that the benchmark treatment for borrowing costs is to recognize borrowing costs as expense in the period in which the costs are incurred, regardless of how the borrowings are applied (paragraphs 14 and 15). The standard does allow for an alternative treatment for certain borrowing costs. Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset can be capitalized as part of the asset. The amount of costs capitalized are determined according to provisions in the standard (paragraph 18). If active development of the asset is interrupted, costs during the period of interruption do not quality for capitalization and must be expensed (paragraph 34). Unless the borrowing cost is associated with a concessionary loan (see IPSAS 29), this Statement is not expected to be affected by the non-exchange expense project (or a related alternative).

8. IPSAS 9, *Revenue from Exchange Transactions*, indicates that when uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount is recognized as expense rather than an adjustment of the revenue originally recognized (paragraph 21). IPSAS 9 provides guidance for both the rendering of services and sale of goods. Related to the rendering of services, if the entity incurs costs to provide services, but the outcome of the transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, the costs incurred are recognized as an expense (paragraph 27). This Statement is not expected to be affected by the non-exchange expense project (or related alternative).

9. IPSAS 11, *Construction Contracts,* provides guidance regarding the recognition and measurement of contract revenues and contract costs. In situations in which the outcome of a construction contract can be reasonably estimated, "contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date" (paragraph 30). Often referred to as the percentage of completion method, this method matches contract revenues with contract costs incurred in reaching the stage of completion (paragraph 33). Contract costs are generally recognized as an expense in the statement of financial performance in the reporting periods in which the work to which they relate is performed, with the following exceptions:

(a) When the outcome of a construction contract cannot be estimated reliably, contract costs shall be recognized as an expense in the period in which they are incurred (paragraph 40).

(b) Where contract costs that are to be reimbursed by parties to the contract are not probable of being recovered, they are recognized as an expense immediately (paragraph 42).

(c) When it is probable that total contract costs will exceed total contract revenue, the expected deficit shall be recognized as an expense immediately (paragraph 44).

This Statement is not expected to be affected by the non-exchange expense project (or related alternative).

10. IPSAS 12, *Inventories*, states that "when inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed or the related service is rendered" (paragraph 44). Any write-down or loss of inventories "shall be recognized as an expense in the period the write-down or loss occurs." If a write-down is reversed, the amount of the reversal "shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs" (paragraph 44). Alternatively, some inventories "may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant, or equipment" (paragraph 46). Inventories allocated to another asset in that way are recognized as an expense during the useful life of that asset. With regard to service providers, inventories generally are recognized as expenses when services are rendered, or upon billing for chargeable service (paragraph 45). As noted above, this Statement could be affected by the non-exchange expense project (or related alternative).

11. IPSAS 13, *Leases,* provides guidance relevant to expense recognition for both operating and finance leases. At the commencement of a financing lease, the lessee "shall recognize assets acquired under finance leases as assets, and the associated lease obligations as liabilities in their statements of financial position" (paragraph 28). Minimum lease payments are then apportioned between the finance charge and the reduction of the outstanding liability, and contingent rentals are charged as expenses in the period in which they occur (paragraph 34). For a lessee in an operating lease, lease payments "shall be recognized as an expense on a straight-line basis over the lease term" (paragraph 42). This Statement could be affected by the non-exchange expense project (or related alternative).

12. IPSAS 16, *Investment Property*, describes the accounting treatment for investment property and related disclosure requirements. IPSAS 16 requires entities to recognize the difference between the investment property's cost (cash price equivalent) and the total payments as interest expense over the period of credit when payment for investment property is deferred (paragraph 31). IPSAS 16 also describes certain disclosure related to investment property, including disclosure of amounts recognized in surplus or deficit for direct operating expenses (paragraph 86(f)). This Statement is not expected to affected by the non-exchange expense project (or related alternative).

13. IPSAS 17, *Property, Plant, and Equipment,* states that an item of property, plant, and equipment shall be measured initially at its cost (paragraph 26). In situations in which the asset is acquired through a non-exchange transaction, however, cost shall be measured at fair value as at the date of acquisition (paragraph 27). Not included in that carrying amount, however, are the costs of the day-to-day servicing of the item of property, plant, and equipment (often referred to as repairs and maintenance). Rather, "those costs are recognized in surplus or deficit as incurred" (paragraph 33). Similarly, revenues and related expenses of incidental operations (those occurring in connection with the construction or development of an item of property, plant, and equipment, but not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management) are "recognized in surplus or deficit, and included in their respective classifications of revenue and expense" (paragraph 35). This Statement could be affected by the non-exchange expense project (or related alternative).

14. IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets,* states "provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate" (paragraph 69) Any increase in the carrying amount of a provision (to reflect the passage of time) is to be recognized

as an interest expense (paragraph 70). This Statement could be affected by the non-exchange expense project (or related alternative).

15. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers),* has been described in other agenda papers throughout the project. This Statement could be affected by the non-exchange expense project (or related alternative). See Paper 8.3.

16. IPSAS 25, *Employee Benefits,* provides accounting and disclosure for employee benefits. Entities are required to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future and expense when the entity consumes the economic benefits or service potential arising from the services provided by the employee. The standard applies to all employee benefits except share-based transactions. The standard does not address benefits provided by composite social security programs that are not in consideration in exchange for service rendered by employees.

17. Employee benefits are divided into four categories, each of which has separate requirements defined in the standard (paragraph 5). The four categories include:

    (a) Short-term employee benefits (wages, salaries, social security contributions, paid leave, bonuses, profit-sharing, non-monetary benefits for current employees);

    (b) Post-employment benefits (pensions, life insurance, medical care);

    (c) Other long-term employee benefits (long-term leave, long-term disability, long-term portion of profit-sharing, bonuses, deferred compensation); and

    (d) Termination benefits.

18. The general recognition of each category is described below:

    (a) Short-term employee benefits are generally recognized as an expense in the period in which the employee has rendered service, unless another standard allows or requires the benefits to be included in the cost of an asset, such as IPSAS 12 or IPSAS 17 (paragraph 13).

    (b) Post-employment benefits can take many forms, including defined contribution and defined benefit plans. When an employee has rendered service to an entity, the entity recognizes contribution payable to a defined contribution plan as an expense in that period, unless another standard allows or requires the benefit to be included in the cost of an asset (paragraph 55). The accounting for defined benefit plans is complex as actuarial assumptions are used to measure the obligation and expense (paragraph 59). An entity is required to recognize the net total of the following elements in surplus or deficit, unless another standard requires or permits their inclusion in the cost of an asset (paragraph 74):

        (i) Current service cost

        (ii) Interest cost

        (iii) Expected return on plan assets and on any reimbursement rights

        (iv) Actuarial gains and losses

        (v) Past service cost

        (vi) Effect of any curtailments or settlements

(vii) Effect of the limit in paragraph 69 (b), unless it is recognized in the Statement of Change in Net Assets/Equity in accordance with paragraph 108.

(c) Other long-term employee benefits are recognized using a simplified method of accounting than that used for post-employment benefits. The simplified method differs from the accounting used for post-employment benefits in that actuarial gains and losses are recognized immediately and no corridor is applied and all past service cost is recognized immediately (paragraph 148). The net total of items (i) – (vi) above is recognized as expense or revenue, with items (iv) and (v) recognized immediately (paragraph 151).

(d) Termination benefits are recognized as a liability and expense when, and only when, the entity is committed to either terminate employment of an employee or group of employees before the normal retirement date; or, provide termination benefits as a result of an offer made in order to encourage voluntary redundancy (paragraph 155).

This Statement is not expected to be affected by the non-exchange expense project (or related alternative).

19. IPSAS 29, *Financial Instruments: Recognition and Measurement,* states that an entity shall "recognize any revenue arising on the transferred asset to the extent of its continuing involvement and shall recognize any expense incurred on the associated liability" (paragraph 34). In situations in which an entity revises its estimates of payments or receipts, the entity adjusts the carrying amount of the financial asset or financial liability to reflect the revised estimates by recalculating "the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate, or, when applicable, the revised effective interest rate calculated in accordance with paragraph 103. The adjustment is recognized in surplus or deficit as revenue or expense" (paragraph AG20). In circumstances when part of the consideration given or received in a financial instrument transaction is for something other than a financial instrument, the fair value of that financial instrument is estimated using a valuation technique.

20. IPSAS 29 also provides guidance for derecognition of financial assets and liabilities. IPSAS 29 indicates that the difference between the carrying amount of the financial asset and the sum of any consideration received and any cumulative gain or loss that had been recognized directly in net assets or equity shall be recognized in surplus or deficit (paragraph 28). The forgiveness of debt, for example, would result in the recognition of the carrying amount of the loan as expense in surplus or deficit, less any consideration that might be provided to the entity.

21. IPSAS 29 requires financial assets, including loans, to be measured at fair value upon initial recognition. The Application Guidance in IPSAS 29 describes the treatment of concessionary loans (paragraphs AG84-AG90). The guidance requires entities providing loans at below-market rates to assess the substance of the concessionary loan to determine if the loan is in fact a loan, grant, contribution from owners, or a combination. If the transactions is determined to be a loan, in whole or in part, the entity must determine the fair value of the loan in accordance with the principles described in paragraphs AG101-AG115 and compare the fair value to the transaction price. The difference is treated as an expense at initial recognition. As noted above, this Statement could be affected by the non-exchange expense project (or related alternative).

22. IPSAS 31, *Intangible Assets,* provides guidance regarding the recognition and measurement of intangible assets, such as computer software, patents, copyrights, and relationships with users of a service. If an item within the scope of this Standard does not meet the definition of an intangible

asset, “expenditure to acquire it or generate it internally is recognized as an expense when it is incurred” (paragraph 18). The revenue and related expenses of incidental operations that are not necessary to bring an intangible asset to the condition necessary for it to be capable of operating in the manner intended by management “are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense” (paragraph 38). If payment for an intangible asset is deferred beyond normal credit terms, the difference between its cost or cash price equivalent and the total payments is “recognized as interest expense over the period of credit” unless capitalized under IPSAS 5 (paragraph 39). Subsequent expenditure on an in-process research or development project acquired separately and recognized as an intangible asset is recognized as expense when incurred if it is a 1) research expenditure or 2) development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55 (paragraph 41). Expenditures on research (or on the research phase of an internal project) are “recognized as expense when incurred” (paragraph 52). This Statement is not expected to be affected by the non-exchange expense project (or related alternative).

23. IPSAS 32, *Service Concession Arrangements: Grantor*, describes the accounting for service concession arrangements by a public sector entity grantor. IPSAS 32 indicates that finance charges and charges for services provided by an operator in a service concession arrangement, determined in accordance with specific provisions of IPSAS 32, should be accounted for as expenses (paragraph 21). This Statement is not expected to be affected by the non-exchange expense project (or related alternative).

Matter(s) for Consideration

1. The IPSASB is **asked** if it agrees with the initial conclusions described above for each Statement.

ISSUES PAPER, *NON-EXCHANGE REVENUE AND EXPENSES* Exchange/Non-Exchange Classification Approach

Objectives of this Paper

1. Agenda Paper 8.2 describes results of outreach interviews with preparers of general purposes financial statements who have adopted accrual International Public Sector Accounting Standards. The interview participants identified challenges regarding non-exchange transactions, both revenue and expenses. While more challenges with existing guidance were identified related to revenues, the lack of issues reported with non-exchange expenses may reflect lack of specific guidance in current standards regarding non-exchange expenses.

2. Agenda Paper 8.4 describes the performance obligation approach and considers the types of public sector transactions for which it might be appropriate, including exchange transactions. The primary objective of this paper is to further develop an alternative approach to the performance obligation approach based on the traditional exchange/non-exchange classification that addresses the challenges identified by stakeholders in the outreach interviews. Therefore, continuing to develop the non-exchange model as an approach is important.

3. This paper further discusses the advantages and disadvantages of the exchange/non-exchange approach, as well as potential modifications that could be made to that approach. The paper then discusses two alternatives for developing guidance for non-exchange transactions for resource providers: continuing the use of International Public Sector Accounting Standard (IPSAS) 19, *Provisions, Contingent Liabilities and Contingent Assets;* or developing modifications to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* that could be applied by both resource recipients (as currently is the case) and resource providers.

Exchange/Non-Exchange Classification Approach

4. As noted above, the basic exchange/non-exchange classification approach currently used could serve as a base for the development of specific guidance for the accounting and reporting of non-exchange transactions for resource providers and the modification of current guidance for resource recipients. This section discusses the advantages and disadvantages of the exchange/non-exchange approach, as well as potential modifications that could be made to the approach to address concerns raised related to current guidance.

Advantages of Retaining the Exchange/Non-Exchange Transaction Approach

5. One advantage of continuing to use the exchange/non-exchange classification approach is that this approach is familiar to preparers of public sector entity financial statements. During the outreach interviews described in Agenda Paper 8.1, some respondents indicated no issues with the conceptual basis for the approach taken in current guidance for non-exchange revenues. These respondents may have cited certain operational challenges to obtaining information necessary to record accruals for revenues from non-exchange transactions, but did not indicate disagreement with the conceptual distinction between exchange/non-exchange revenue transactions.

6. Several jurisdictions noted that while classification of transactions as exchange or non-exchange might be challenging, the preparers were able to apply judgement or implementation guidance to determine the classification. These respondents mentioned the potential need for additional guidance in determining the classification of certain transactions, but did not indicate disagreement with the basis of the distinction in classification of the transactions.

7. The effects of extending the classification performance obligation approach to some non-exchange transactions where the performance obligation approach might be appropriate are unknown at this point. Agenda Paper 8.4 describes several potential methods for including a performance obligation approach in the guidance for public sector entities that include the necessity of defining which transactions have performance obligations and which ones do not. Once performance obligations are identified, public sector entities also may need to consider if those obligations are sufficiently enforceable and specific for use in the performance obligation model for revenue or expense recognition. Agenda Paper 8.4 also identifies several transactions for which the performance obligation model is less likely to apply.

8. The process of identifying performance obligations and further consideration of enforceability and specificity will require judgement by preparers. This still will involve judgement, albeit different judgements from those required to classify transactions as exchange or non-exchange. There is no evidence that the application of the performance obligation approach will result in fewer implementation issues or more relevant information for financial statement users.

9. Both the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) have issued additional implementation guidance and delayed effective dates for their respective standards using the performance obligation approach for revenue recognition. Therefore, the model is largely untested in practice, for both the private and public sectors.

10. Another benefit to retaining the exchange/non-exchange classification model is that the approach is foundational in the public sector. The discussion of non-exchange transactions is present in standards set for public sector entities throughout the world. Previous agenda papers have highlighted guidance from around the world that uses the distinction between exchange and non-exchange transactions for one or more accounting and financial reporting standards. While other standard setters have begun work to consider the use of a performance obligation model in the public sector of their respective countries, no final standards have been issued at this time.

11. Moreover, the distinction between exchange and non-exchange transactions is embedded throughout the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework) and existing IPSASB literature.

12. The Preface to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities includes a section titled "The Volume and Financial Significance of Non-Exchange Transactions" that notes "The nature of non-exchange transactions may have an impact on how they are recognized, measured, and presented to best support assessments of the entity by service recipients and resource providers."[1] The Preface also notes that liabilities may arise from non-exchange transactions, including those programs that deliver social benefits.

[1] Conceptual Framework, paragraph 5.

13. Chapter 2 of the Conceptual Framework indicates that most services provided by governments and other public sector entities are provided as a result of a non-exchange transaction in a non-competitive environment[2]. That chapter also describes the relationship between taxpayers and the government or other public sector entity, noting that taxpayers do not usually provide funds on a voluntary basis or through an exchange transaction. The chapter also notes that resources to support the activities of public sector entities are predominantly provided in non-exchange transactions. Many other references to exchange and non-exchange transactions are made throughout the Conceptual Framework.

14. The non-exchange expenses project currently proposes to provide guidance on non-exchange expense transactions other than social benefits. If a performance obligation approach is used instead of the exchange/non-exchange classification approach, as noted in Agenda Paper 8.2 the scope of this project may need to be reconsidered. While current IPSASB guidance for non-exchange expense transactions is limited, several standards exist that address recognition and financial reporting of liabilities and related expenses incurred by public sector entities through exchange transactions. These standards are reviewed in Agenda Paper 8.2 and a summary listing of the standards is included in this paper as Appendix A.

15. Finally, from a practical standpoint, without a change in the scope of non-exchange expense project, the application of the performance obligation approach to some revenue transactions, but limiting the application of the performance approach to only transactions involving non-exchange expenses will lead to asymmetrical reporting of similar transactions (for example, exchange transactions). If the exchange/non-exchange split were retained only for expenses, due to this scope limitation, one of the major challenges raised by stakeholders would not be addressed. That is the problems raised regarding the need to distinguish between the exchange and non-exchange transactions.

Disadvantages of Retaining the Exchange/Non-Exchange Transaction Approach

16. While the previous points indicate potential advantages to continuing to use the distinction between exchange/non-exchange transactions to recognize and report transactions, the use of the exchange/non-exchange classification approach does present challenges.

17. As discussed at prior meetings, one challenge to continuing to use the exchange/non-exchange classification approach is the difficulty in identifying whether the transactions of a public sector entity are inherently exchange or non-exchange. As described in the June agenda paper, some may argue that many, if not all, transactions entered into by a public sector entity, that are not government business enterprises, are non-exchange in nature. One unique element of the public sector is that public sector entities exist to provide service to constituents. There is no profit motive or return on investment generated by public sector entities. Therefore, some may argue that there is no benefit to the public sector entity itself when it enters into transactions to provide services.

18. Others may argue that all transactions entered into by a public sector entity are exchange in nature. Using a label of non-exchange implies that the public sector entity is giving away resources without obtaining equal or greater benefit in return. Public sector entities exist to provides services or undertake activities to benefit their constituents and are accountable to their constituents; therefore, all activities of the entity are undertaken in exchange for the benefit of the public sector entity. For example, if a public sector entity enters into an agreement with another entity to provide services to

[2] Conceptual Framework, paragraph 2.7

the public sector entity's constituents, some may argue that the public sector entity has purchased services on behalf of its constituents in an exchange transaction.

19. Still others may argue that while most of transactions are non-exchange and create certain theoretical arguments for recognition as a non-exchange transaction, from a practical level the transactions should be treated as exchange transactions for accounting and financial reporting purposes. This argument is best illustrated through consideration of an employment relationship. If a public sector entity employs a teacher to provide education to residents of the public sector entity's jurisdiction and does not require the residents to pay tuition or other fees for the education service, the public sector entity theoretically has an intangible asset for the right to direct the teacher's services for educational purposes in exchange for the wage the public sector entity pays the teacher. The public sector entity then transfers that right to its residents in a non-exchange transaction. However, in practice, the intangible right to service and subsequent transfer to residents are not recognized by the public sector entity.

20. These wide differences in views create challenges to applying the exchange/non-exchange classification approach to the provision of resources by a public sector entity.

21. Another challenge to using the exchange/non-exchange classification approach is that the distinction between exchange and non-exchange transactions can be difficult to apply in practice. IPSAS 23 acknowledges that some transactions may have both exchange and non-exchange components, which can also cause challenges. Several interview participants noted that distinguishing exchange from non-exchange transactions posed difficulty in their respective jurisdictions. Participants mentioned licenses as one transaction posing such difficulty. Some respondents indicated that it was difficult to determine whether or not the value provided by the public sector entity was commensurate with the fee paid by the licensee. In some cases, the interview participants indicated that the fees charged for licenses was clearly in excess of the cost of providing the license and therefore could be viewed as a tax rather than a fee for a service. The interview participants indicated that significant judgement was needed to classify the transactions.

22. Finally, the distinction between exchange and non-exchange transactions is not particularly relevant to the presentation of general purpose financial statements. Revenues are generally reported by type, such as taxes, fines, fees, and grants. Expenses are reported either by nature of expense or by functional category. The distinction between revenues generated from exchange transactions and revenues generated from non-exchange transactions is not specifically displayed on the face of the statements.

23. IPSAS 1, *Presentation of Financial Statements*, requires minimum line items be reported on the face of the statement of financial position and includes recoverables from non-exchange transactions, receivables from exchange transactions, payables under exchange transactions, and provisions.[3] Paragraph 106 of IPSAS 23 requires the following disclosures, either on the face of the general purpose financial statements, or in the notes:

    (a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:

        (i) Taxes, showing separately major classes of taxes; and

        (ii) Transfers, showing separately major classes of transfer revenue.

[3] IPSAS 1, paragraph 88.

(b) The amount of receivables recognized in respect of non-exchange revenue;
(c) The amount of liabilities recognized in respect of transferred assets subject to conditions;
(d) The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets;
(e) The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
(f) The existence and amounts of any advance receipts in respect of non-exchange transactions; and
(g) The amount of any liabilities forgiven.

IPSAS 23 also requires the notes to disclose the accounting policies adopted for the recognition of revenue from non-exchange transactions. Although the statement requires public sector entities to distinguish and disclose revenue from non-exchange transactions during the period, generally, the disclosure by major classes noted above do not distinguish exchange from non-exchange

24. Some interview respondents indicated that their jurisdictions have issued or developed guidance that, while consistent with IPSAS 23, is based on type of revenue stream, similar to the types noted above, rather than non-exchange or exchange revenues. While the preparers are aware of the transactions' classification as exchange or non-exchange, the guidance developed by the jurisdiction is not written using that distinction. Other interview participants indicated that preparers have created policies to provide interpretive guidance for classification of common revenue streams.

Matter(s) for Consideration

1. The IPSASB is **asked** if it agrees with the advantages and disadvantages described above for retention of the exchange/non-exchange classification approach.
2. The IPSASB is **asked** to identify any additional advantages or disadvantages of retaining the exchange/non-exchange classification approach that should be considered.

Potential Modifications to IPSAS 23

25. To address the potential challenges noted above, as well as other issues raised by interview participants described in Agenda Paper 8.1, certain modifications to the exchange/non-exchange classification approach could be considered.

26. First, the definition of non-exchange could be clarified and operationalized. While keeping the core definition as it now exists, the Board may consider adding additional clarification regarding characteristics of non-exchange transactions, such as the presence of stipulations or eligibility requirements, to the definition. Many interview participants noted that both non-exchange revenues and non-exchange expenses often included stipulations, either through the use of restrictions or conditions. A more detailed discussion of stipulations is included below.

27. The guidance also may consider clarification that while the difference in classification of transactions as exchange or non-exchange may affect the accounting and financial reporting of certain transactions, it may not affect all transactions in the same manner. Additionally, the guidance may include clarification that for certain transactions, although they may be in a specific category, for practical reasons those transactions may be treated as either exchange or non-exchange for financial reporting purposes.

28. In the previously noted public school teachers example, some would argue that the central government controls the services of the employed teachers and directs the use of those services to the government's citizens. The control of those services indicates an asset of the central government. In practice, this asset is not recognized and the employment relationship is treated as an exchange transaction and expenses are recorded as the services are provided by the teacher. Continuing guidance may indicate that employment related costs are treated as exchange transactions regardless of the ultimate beneficiary of the services provider.

29. Another transaction that often causes difficulty in classification relates to license fees. In many jurisdictions, the public sector entity charges a fee to provide a license for a business or an individual. The amount of the fee can easily be determined; however, the value of the license issued is less easily measured. In addition, the cost of providing the license may not be easily measured. Some licensing activities involve ongoing inspection, monitoring and certification throughout the license period, such as a license to operate a restaurant. For other licenses, no such ongoing activities are undertaken by the issuing public sector entity. Still other licenses may charge different fees for different classifications of licenses or different levels. Some vehicle licensing mechanisms may charge significantly higher rates for luxury vehicles or vehicles that exceed certain pollution standards. The vehicles have the same rights to access public roads and do not obtain any additional benefit from the higher license fee. In practice, these licences are sometimes treated as a tax and sometimes as a fee.

30. Potential guidance on non-exchange transactions may include provisions that indicate for certain transactions, judgement will be needed to evaluate the value of the license or service obtained. If that value is considered to be commensurate with the fee paid, even if it cannot be precisely measured, then the transaction is considered to be exchange-like and will be recognized according to guidance for exchange transactions. For transactions in which the fee is clearly not commensurate with the value obtained, or a particular class is charged a higher fee with no increase in benefits provided, then the transactions would be considered non-exchange.

Matter(s) for Consideration

3. The IPSASB is **asked** to identify any additional potential modifications to the IPSAS 23 approach that should be further explored at the next meeting

Non-exchange Expenses—IPSAS 19 versus IPSAS 23

31. Using the exchange/non-exchange classification approach, an enhanced IPSAS 23 would be retained for non-exchange revenue transactions. However, the Board may consider one of two alternatives for guidance on non-exchange expenses. The first alternative is based on continued use of IPSAS 19 for non-exchange expenses. The second alternative is based on developing the IPSAS 23 approach (with the enhancements noted above) for non-exchange expenses. These alternatives are explored below.

IPSAS 19

32. IPSAS 19 defines contingent assets, provisions and contingent liabilities, and identifies how these transactions should be recognized and measured. Provisions are recognized, while contingent liabilities are not recognized. IPSAS 19 explains that provisions are distinct from other liabilities because the timing or amount of the future expenditure to settle a provision is uncertain.

33. A provision is recognized when (1) an entity has a *present obligation* (legal or constructive) as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. IPSAS 19 is a broad standard intended to address many transactions that may give rise to contingent assets, provisions and contingent liabilities. While some non-exchange transactions of resource providers are considered to be within the scope of IPSAS 19, for example, those that are not social benefits, the standard was not specifically developed for those transactions. This section explores the benefits and challenges of continuing to apply IPSAS 19 to non-exchange transactions of resource providers.

34. Appendix B presents the application of IPSAS 19 and the IPSAS 23 approach to some of the same examples used in Agenda Paper 8.4. Some examples in Agenda Paper 8.4 do not apply to public sector entities providing resources and are therefore not used in this paper. The examples used are intended to support the considerations discussed in this paper, not to provide a detailed examination of the transactions or application of potential guidance.

Advantages of a IPSAS 19 Approach

35. IPSAS 19 provides preparers flexibility to address jurisdictional situations. IPSAS 19 defines a constructive obligation as:

> *an obligation that derives from an entity's actions where (a) by an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.*[4]

36. IPSAS 19 also states that decisions by an entity's management, government body, or controlling entity does not give rise to a constructive obligation unless those decisions have been communicated to those affected by the decision in a "sufficiently specific manner" that raises a valid expectation that the entity will discharge the related responsibilities.

37. By referencing an entity's past practice, policies, statements, and communication to affected parties, IPSAS 19 allows for each entity's specific situation to influence the recognition and reporting of liabilities, specifically those related to non-exchange transactions. For example, certain jurisdictions may communicate to citizens that relief from certain natural disasters will be provided that creates a valid expectation that the entity will discharge its responsibilities for that relief. Other jurisdictions may not have the same mechanisms for communication or may not have the prior history sufficient to raise expectations of its citizens. IPSAS 19 allows for judgment of the factors specific to each case to determine if a constructive obligation exists.

38. IPSAS 19 also allows for future events that may affect the amount required to settle an obligation to be reflected in the amount of a provision when there is sufficient objective evidence that the events will occur. This allows preparers to consider future changes in technology, legislation, or other factors as may be necessary for a particular transaction.

[4] IPSAS 19, paragraph 18.

Disadvantages of an IPSAS 19 Approach

39. The primary criticism of IPSAS 19 is the lack of specificity in the standard, which provides little to no guidance on the accounting and reporting of non-exchange expenses. This lack of guidance leads to the potential for inconsistent application. As described in Agenda Paper 8.1, preparers interviewed reported varying answers to the question regarding treatment of accruals for non-exchange expenses. With the lack of specific guidance provided by IPSAS 19, there is potential for different accounting and financial reporting to occur for similar transactions.

40. IPSAS 19 acknowledges that it may be unclear whether a present obligation exists. IPSAS 19 states that in such cases, a past event is evaluated and deemed to give rise to a present obligation if it is more likely than not that a present obligation exists at the reporting date. Preparers must exercise judgement to determine whether a present obligation is "more likely than not" to exist. Some interview respondents reported challenges in applying this judgement and felt the guidance could be more specific.

41. IPSAS 19 was developed in 2002 without specific consideration of non-exchange transactions. IPSAS 19 is drawn primarily from International Accounting Standard (IAS) 37, *Provisions, Contingent Liabilities and Contingent Assets*, which was issued in 1998. Therefore, the basis for the guidance has existed for nearly two decades.

42. Since that time, both the Conceptual Framework and IPSAS 23 have been issued by the IPSASB. The Conceptual Framework defines the elements of financial statements, including liabilities. The Conceptual Framework defines a liability as a present obligation for an outflow of resources that results from a past event. A present obligation is "a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid."[5] The Basis for Conclusions includes a discussion of the Board's consideration of present obligations, including conditional and unconditional obligations, stand-ready obligations, and performance obligations. The Conceptual Framework concluded that consideration of these concepts would be a standards-level issue, not an issue to be decided by the Conceptual Framework. The guidance in IPSAS 19 is not sufficiently specific to consider these obligations.

Matter(s) for Consideration

4. The IPSASB is **asked** if it agrees with the advantages and disadvantages described above for the IPSAS 19 approach.

5. The IPSASB is **asked** to identify any additional advantages or disadvantages of the IPSAS 19 approach.

IPSAS 23 Approach

43. One potential approach to the accounting for and reporting of non-exchange transactions by resource providers is to use the IPSAS 23 approach. This section of the paper describes the potential advantages and disadvantages of such an approach, as well as potential modifications to improve the existing standards to address shortfalls described during the interviews of preparers.

[5] Conceptual Framework, paragraph 5.15.

Advantages of an IPSAS 23 Approach

44. Preparers are generally familiar with the existing provisions of IPSAS 23, which was issued in December 2006. Some interview respondents indicated that they already use the concepts described in IPSAS 23 to evaluate the recording and reporting of non-exchange transactions as a resource provider. Moreover, as previously noted, many interview respondents also indicated that they did not have significant conceptual issues with IPSAS 23.

45. Using IPSAS 23 as a basis for a standard on non-exchange transactions of resource providers could result in fewer implementation difficulties as preparers are familiar with the provisions that would be included in such a standard. The resulting guidance also may address some of the implementation challenges indicated by preparers in the implementation of IPSAS 23.

46. Interviews of preparers have indicated that stipulations are generally imposed by resource providers; therefore, any approach used to provide guidance for non-exchange transactions of resource providers should specifically address the treatment of transactions that include a stipulation. IPSAS 23 specifically addresses stipulations, both conditions and restrictions. Similar guidance provided to resource providers would be critical. Some interview respondents did report some dissatisfaction with some of the guidance in IPSAS 23 related to the treatment of stipulations, which will be discussed in detail below.

47. As noted, at times certain transactions may be difficult to classify as purely exchange or purely non-exchange. IPSAS 23 includes provisions for accounting for transactions with both exchange and non-exchange components. IPSAS 23 guides entities to attempt to determine the portion of a transaction that is exchange and the portion that is non-exchange. If the determination cannot be made, the transaction is considered to be a non-exchange transaction. Similar guidance would be useful in the accounting for and reporting of non-exchange transactions of resource providers.

Disadvantages of an IPSAS 23 Approach

48. Some preparers interviewed indicated certain issues associated with the application of IPSAS 23. A potential disadvantage to developing guidance for the non-exchange transactions of resource providers based on the current IPSAS 23 approach is that if the standard does not provide adequate guidance for non-exchange revenues, there is little chance that a mirror image of the standard would provide sufficient guidance for resource providers.

49. One issue noted by preparers relates to the treatment of stipulations. Preparers reported that while IPSAS 23 provides definitions of both conditions and restrictions, identifying the difference between conditions and restrictions has been difficult in practice. Some agreements may specify that funds are to be used in a particular manner, while others imply a multi-year arrangement. However, the terms of the agreement do not specifically require a refund if the stipulations are not met (however, the preparers note that it is clear to all parties that the stipulations will be met). Because the terms of the agreement are not sufficiently specific to be treated as a condition, the revenue is recorded at the beginning of the agreement rather than as the resources are used as specified in the agreement.

50. Some preparers indicated that the threshold for meeting the definition of a condition is so high that it is rare to recognize a liability for a non-exchange transaction. This leads to recognition of revenue in cases where preparers believe that this presentation is not faithful representation of the transaction.

51. In addition, the difference in recording inflows with restrictions from recording inflows with conditions has resulted in inflows being recognized as revenues at the beginning of a multi-year arrangement

when the timing requirements of the agreement are not specifically linked to a refunding provision (however, the preparers note that it is clear to all parties that the timing requirements will be met). Therefore, even though there is an implication that the funds are to be used over the term of the agreement, revenue is generally recognized at the beginning of the agreement.

52. Many interviewees also reported a similar issue for the recognition of revenue from capital grants. These arrangements, absent conditions, were recorded as revenue in the year in which the agreement become binding unless the agreement included conditions on the use of the asset. If conditions on the use of the asset were included in the agreement, revenue would be recorded as the condition was met, or as the related asset was depreciated. In situations where the grant agreements did not include conditions on the use of assets, and revenues were therefore recognized when the agreement was binding, related outflows for the construction of the capital asset may have occurred over several years. Preparers have noted that this recognition guidance does not result in a faithful representation of the entity's annual results.

53. To use the same guidance for a resource provider may result in similar results in the financial statements. Resource providers may be required to recognize expenses on an accelerated basis compared to current guidance if similar provisions are required in specific guidance for non-exchange transactions of resource providers. The issue would also need to be carefully considered for effects on symmetry of accounting between public sector entities.

54. Some interview participants reported concerns about the enforceability of stipulations, particularly when advance payment is made. Some respondents noted that once the payment has been made, recovery of amounts from recipients is difficult. Future payments may be reduced, but the enforceability of a purpose restriction when no refund requirement is present is challenging. Guidance for resource providers may need to be more explicit than that provided to resource recipients when restrictions on the use of resources are included in the binding agreements.

55. Also, some stipulations are not clear as to the degree of specificity. A restriction may indicate that a recipient use the resources to provide a particular service, but does not specify if the resources have to be used for certain costs of providing the particular service. Guidance for transactions of resource providers may need to include provisions to address a wide variety of arrangements.

56. Many preparers indicated that the conceptual basis for recognizing revenues on an accrual basis was not problematic; however, the public sector entities faced operational challenges in accumulating the information. Some jurisdictions indicated the burden on the related taxing offices was too high to track information needed to accumulate data necessary to record accruals. Others noted that due to timing delays between the taxable event and the eventual collection of taxes, reliable information was not available to estimate accruals.

57. As a resource provider, the public sector entity may not face the same challenges to collect the information necessary to record accruals. Resource providers generally have the ability to require recipients to provide progress reports or other information to assess the status of the recipient's progress. If a non-exchange transaction includes a condition, the resource provider can use the information provided to assist in the determination of the amount of accrual to be recorded at the end of a reporting period.

58. IPSAS 23 provides guidance for the recording of in-kind goods and optional recording of in-kind services. Some interviewees indicated that in-kind goods and services were a source of difficulty in

the recording of both non-exchange revenues and non-exchange expenses; however, the difficulty was primarily associated with transactions that generate revenue for recipients. Some interviewees also indicated difficulty related to the accounting for the rights to use assets. Resource providers that allow their assets or other resources to be used by others may not incur additional costs in the transaction. For example, if a public sector entity allows another entity to use office space at no charge, the resource provider is already incurring the costs of owning the office space. Those costs are recorded in the same manner as though the space was in use by the entity's own personnel. Potential guidance could be developed to assist in the classification of the in-kind expense, but guidance on recognition is not necessary.

59. Another potential challenge to using the IPSAS 23 approach is the correct starting point at which to evaluate a potential liability to a resource provider. IPSAS 23 requires recipients to evaluate an inflow to determine if that inflow meets the definition of an asset. For certain public sector entities, the point at which to evaluate an outflow may be difficult to identify.

60. The Conceptual Framework notes that the complexity of public sector programs and activities means that a number of events may give rise to obligations. For financial reporting purposes, it is necessary to identify which of these obligations are binding obligations that the entity has little or no realistic alternative to avoid and satisfy the definition of a liability. At what point does a liability arise for resource providers? Identification of this point is critical to determine when to apply any resulting guidance.

61. The Consultation Paper (CP), *Recognition and Measurement of Social Benefits,* includes several potential approaches to recognizing social benefit transactions. One of the approaches considered in that CP is the obligating events approach, which has five sub-options. Many of the sub-options are intended to address the satisfaction of eligibility requirements by recipients. This approach may be useful in developing guidance for non-exchange transactions that are not social benefits. Many of the programs in which resources are provided to individuals and households, and even other entities, that are not social benefits include eligibility requirements that must be met before resources are provided. Therefore, the same analysis could be applied to these transactions as the analysis applied to social benefit transactions.

62. Not all non-exchange transactions of a resource provider include eligibility requirements. These transactions may not be as easily addressed by the sub-options in the Social Benefits CP; however, the approach to evaluating an obligating event may still be useful. The Social Benefits CP is open to comment through January 2016. The results of that project will be monitored and considered for development of guidance for non-exchange transactions of resource providers that are not social benefits.

63. The Conceptual Framework also indicates that jurisdictional factors may need to be addressed when considering obligations. In certain forms of government, declaration by a public official is considered to be a legal obligation for which the entity has little to no alternative to avoid. For other governments, such a declaration may not constitute a legal obligation, but may give rise to a constructive obligation. In some jurisdictions, these declarations do not constitute either a legal or a constructive obligation of the public sector entity. These jurisdictional differences would need to be considered in the guidance for non-exchange transactions of resource providers.

64. Another potential difference among jurisdictions is the consideration of appropriations or budget authorizations. In some jurisdictions, appropriations are considered authorizations to spend

resources by the recipients. The appropriation itself may not be considered to be an obligating event of the resource provider in these cases. However, in some jurisdictions, the appropriation is considered to be a binding obligation to provide resources. In those jurisdictions, the appropriation may meet the definition of an obligating event. The guidance for non-exchange transactions should specifically consider the effects of appropriations.

65. Finally, applying the IPSAS 23 approach may have unintended consequences. Interviews of preparers have indicated some application issues associated with IPSAS 23; however, the interviews were conducted with a limited group of preparers. The results are not statistically valid and all issues may not have been raised. Additional complication arises when applying the standard, in mirror image, to transactions from a different viewpoint. The viewpoints are completely opposite, so the approach will need to be carefully considered. Even with the consideration, there may be some transactions that have not been identified for which the approach will not be appropriate or will pose additional challenges.

66. Given the issues raised by preparers, as the Board considers using the IPSAS 23 approach, certain modifications may be considered to address some of the challenges described by preparers. These modifications may also be considered for use in clarifying or revising the existing guidance for non-exchange transactions for recipients.

67. The Board may consider whether all stipulations, conditions and restrictions, should be treated in the same manner, or if the conditions and restrictions should continue to have different treatment. As described above, some preparers have difficulty in determining whether certain stipulations are restrictions or conditions. If the agreements intend to limit the way in which resources are used, does the specification of a restriction instead of a condition significantly alter the intent of the agreement? Or does such a limitation, whether through restriction or condition, impose a similar duty on the recipient? If different treatment is still preferred, additional guidance may need to be provided to assist in the identification of the differences.

68. Time restrictions or timing requirements were frequently cited as challenges by preparers, as noted above. In a similar manner, the recognition of capital grants posed challenges. While time requirements and capital grants are not necessarily similar in nature, both situations caused preparers to recognize large amounts of revenue in an initial year, followed by many years of deficits when the related expenses were incurred. The Board may consider alternative recognition models to address these time restrictions or requirements, as well as capital grants.

69. The other concerns with IPSAS 23 raised above, related to estimation of accruals and treatment of in-kind services are more relevant to a discussion of recipients. These concerns are not as applicable to resource providers as described above. While these may be considered for development of revenue guidance, modification to the overall IPSAS 23 approach for these concerns is not as critical to non-exchange transactions of public sector entities providing resources as other modifications to be considered.

Matter(s) for Consideration

6. The IPSASB is **asked** if it agrees with the advantages and disadvantages described above for the IPSAS 23 approach.

7. The IPSASB is **asked** to identify any additional advantages or disadvantages of the IPSAS 23 approach.

APPENDIX A: CURRENT IPSASB STANDARDS THAT ADDRESS RECOGNITION OF EXPENSES

(a) IPSAS 5, *Borrowing Costs*

(b) IPSAS 9, *Revenue from Exchange Transactions*

(c) IPSAS 11, *Construction Contracts*

(d) IPSAS 12, *Inventories*

(e) IPSAS 13, *Leases*

(f) IPSAS 16, *Investment Property*

(g) IPSAS 17, *Property, Plant, and Equipment*

(h) IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*

(i) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

(j) IPSAS 25, *Employee Benefits*

(k) IPSAS 29, *Financial Instruments: Recognition and Measurement*

(l) IPSAS 31, *Intangible Assets*

(m) IPSAS 32, *Service Concession Arrangements: Grantor*

APPENDIX B: EXAMPLES

This appendix contains discussion of the following examples using the current IPSAS 19 guidance, as well as evaluation using the IPSAS 23 approach. The examples indicate when potential modifications to IPSAS 23 may be considered.

- Example 1 Vaccination Grant
- Example 2 Mental Health Services
- Example 3 Dental Services
- Example 4 Road Construction
- Example 5 Low Income Transfer
- Example 6 Funding of Public Sector University
- Example 7 Grant With No Requirements
- Example 8 Forgiveness of Loan
- Example 9 Research Agreement: Health
- Example 10 Research Agreement: Science
- Example 11 License Fees
- Example 12 Construction Contracts Settled by Third Parties

The examples in this paper are the same as those used in Agenda Paper 8.4 (Examples 1-11). Example 12 above is the same as Example 16 in Agenda Paper 8.4. Examples 12-15 in Agenda Paper 8.4 do not apply to public sector entities providing resources through non-exchange transactions. This paper focuses on treatment by the resource provider, while Agenda Paper 8.4 focuses on treatment by the service provider through both the current IPSAS 23 model and a performance obligation model. Certain aspects of the examples have been repeated in both papers to assist in the consideration of the approaches described.

Example 1 Vaccination Grant

Performance Obligation with No Additional Factors

	Grant from a central government to a local government health department to subsidize a portion of a vaccination program for residents of the community.
Specifications (Quantity, quality, location, timing of services)	500 vaccinations. Health industry guidelines regarding use of approved vaccines and safe storage and protocols for administering vaccines must be complied with. "Residents of the community" implies a geographic area. No time restriction on when the vaccinations must be completed.
Cost	The resource provider will pay 50 percent of the actual costs for 500 vaccinations, up to a specific amount for each vaccination. The resources to be provided are based on the actual number of vaccinations provided.
Timing of payment	Variation 1: The subsidy will be paid once 500 vaccinations are provided. Variation 2: The subsidy will be paid on a pro rata basis, based on the actual number of vaccinations provided at the end of each month.
Availability of funds	The public sector entity providing resources has authority to spend the funds.
Eligibility criteria	No specific criteria over and above the specifications set out above.

Example 1 Vaccination Grant – IPSAS 19	
Is there a present obligation as a result of an obligating event?	The obligating event is the provision of the vaccinations by the local government health department. As the vaccinations are provided, the central government becomes obligated for the vaccinations provided.
Is there a probable outflow of resources?	Yes, unless the local government health department must provide the minimum number of vaccinations to qualify for funding.
Can the amount of the obligation be estimated reliably?	Yes, the resource provider pays 50 percent of actual costs up to a maximum amount. The number of vaccinations and cost of each vaccination can be estimated reliably and used to calculate the amount of the obligation. The timing of the liability is uncertain; therefore, recognition of a provision until the time at which the payment is due to the local government is appropriate.
Recognition – Resource Provider	DR Expense CR Provision for vaccination grant (liability) *Recognize expense and provision as vaccinations are performed* DR Provision for vaccination grant CR Grant payable *Recognize payable and recognize decrease in provision at the point that payment is due – i.e. all 500 vaccinations have been performed (variation 1) or repeat this journal at the end of each month (variation 2).*

Example 1 Vaccination Grant – IPSAS 19	
	DR Grant payable CR Cash *Recognize decrease in grant payable and recognize decrease in cash when the central government pays for the vaccinations* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the payment of cash.
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 1 Vaccination Grant – IPSAS 23 Approach The steps of IPSAS 23 could be developed into guidance for resource providers. The steps from IPSAS 23 are shown below with potential modifications to address transactions from the perspective of a resource provider.	
Does the outflow give rise to an item that meets the definition of a liability?	A liability is a present obligation of the entity for an outflow of resources that results from a past event (*Conceptual Framework*, paragraph 5.14). A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. (*Conceptual Framework*, paragraph 5.15) The *Conceptual Framework* (paragraphs 5.16 and 5.17) states that liabilities must involve an outflow of resources from the entity to be settled. A number of events may give rise to obligations, causing difficulty in the identification of the past event. At what point is there a *past event*? The grant agreement could be considered a past event; however, the central government can realistically avoid the outflow of resources until the point at which the local government health department provides the vaccinations. • Variation 1: once all 500 vaccinations have been provided • Variation 2: at the end of each month, for the vaccinations that have been completed that month
Does the outflow satisfy the criteria for recognition as a liability?	The central government's obligation to provide funds for vaccinations provided meets the definition of a liability. The amount of the liability can be measured by reference to the costs of vaccinations performed.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. The central government is giving value to the local government without *directly* receiving approximately equal value in exchange. There are differing views in practice about classification of some transactions.
Has the recipient satisfied all of the present obligations related to the outflow?	The local government does not satisfy its present obligations until the vaccinations are provided. The central government is not providing payment in advance. Therefore the central government will recognize expense to the extent that the local government has performed vaccinations.

Example 1 Vaccination Grant – IPSAS 23 Approach The steps of IPSAS 23 could be developed into guidance for resource providers. The steps from IPSAS 23 are shown below with potential modifications to address transactions from the perspective of a resource provider.	
Recognition – Resource Provider	DR Vaccination grant expense CR Provision for vaccination grants (liability) *Recognize expense as vaccinations are performed; alternatively, the provider could use a payable account and not use the entry below* DR Provision for vaccination grants CR Payable for vaccination grants *Recognize payable at the point that payment is due* DR Payable for vaccination grants CR Cash *When the central government pays for the vaccinations* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the payment of cash.
Recognition – Service Provider (from agenda paper 8.4)	DR Vaccinations - Work in progress CR Revenue from performing vaccinations *Recognize revenue as vaccinations are performed* DR Revenue receivable CR Vaccinations - Work in progress Recognize receivable at the point that payment is due DR Cash CR Revenue receivable *When the central government pays for the vaccinations* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the receipt of cash.

Example 1: Vaccination Grant – Comments

There is no difference between treatment of the transaction when applying IPSAS 19 and applying the IPSAS 23 approach.

The IPSAS 23 approach analysis does indicate that there are differing views in practice regarding the classification of these types of transactions as exchange or non-exchange. The approach could be modified to provide for additional clarification regarding the classification, but judgement likely will continue to be necessary.

Example 2 Mental Health Services

Performance Obligation with Additional Factor (Eligibility Requirement)

	Grant from a central government to a local government to provide mental health services at a prison.
Specifications (Quantity, quality, location, timing of services)	No minimum quantity specified. Provide as many services as possible – up to the maximum amount of the grant. The service provider must be an accredited mental health provider and comply with industry codes of ethics. At a specific prison. No specific timing for services.
Cost	The funding provider will pay for 25 percent of the costs to provide services, up to a maximum amount.
Timing of payment	Variation 1: the grant will be paid once the service provider has provided all the services up to the maximum amount of the grant. Variation 2: the subsidy will be paid on a pro rata basis, based on the actual services provided at the end of each month.
Availability of funds	Authorization of funding is expected.
Eligibility criteria	The service provider must be accredited with a specific accrediting agency. Variation 1: The service provider must be accredited at the beginning of the agreement. Variation 2: The service provider must be accredited throughout the duration of the agreement.

Example 2 Mental Health Services – IPSAS 19	
Is there a present obligation as a result of an obligating event?	The obligating event is the provision of the mental health services by the local government. As the mental health services are provided, the central government becomes obligated for the funding. The eligibility requirement would also need to be considered. If the service provider is accredited (variation 1) or maintains accreditation (variation 2), the central government remains obligated. If the eligibility requirement is not met, then the central government would no longer be obligated for the funding.
Is there a probable outflow of resources?	Yes.
Can the amount of the obligation be estimated reliably?	Yes, the resource provider pays 25 percent of actual costs up to a maximum amount. The services provided and related costs can be estimated reliably and used to calculate the amount of the obligation. The timing of the liability is uncertain; therefore, recognition of a provision until the time at which the payment is due to the local government is appropriate.

Recognition – Resource Provider	DR Expense CR Provision for mental health services (liability) *Recognize expense and provision as vaccinations are performed* DR Provision for mental health services CR Grant payable *Recognize payable and recognize decrease in provision at the point that payment is due (reclassification entry; could use payable in entry above as an alternative)* DR Grant payable CR Cash *Recognize decrease in grant payable and recognize decrease in cash when the central government pays for the mental health services* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the payment of cash.
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 2 Mental Health Services – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	Assumptions: • The maximum amount of the grant is CU10,000 • The local government expects to spend CU40,000 providing the services • The accreditation requirements will be met. The central government will be unable to avoid the outflow of resources as the local government provides services. The point at which this outflow of resources becomes a binding obligation: • Variation A: once it has provided services worth CU40,000 • Variation B: at the end of each month, for 25% of the amount spent providing mental health services that month (up to CU40,000) The accreditation requirements are one of the terms of the agreement. Under variation 1 (that the service provider be accredited at the beginning of the agreement) the central government should know, at the beginning, that the local government had met that term. Under variation 2 (that the service provider be accredited throughout the duration of the agreement) it is possible that the local government might breach this term at some point after the beginning of the agreement. What happens then will depend on what consequences the agreement sets out for breach of this condition. If the local government cannot enforce payment for any services provided by an unaccredited person then it would not have an asset (revenue receivable) in respect of such services. Similarly, the central government would now have alternative to avoid the outflow of resources and would not have a liability.
Does the outflow satisfy the criteria for	The central government's obligation for payment for mental health services provided meets the definition of a liability. The amount payable can be measured by reference to the cost of services provided.

recognition as a liability?	
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. The central government is providing value to the local government without *directly* receiving approximately equal value in exchange.
Has the recipient satisfied all of the present obligations related to the outflow?	The central government is not providing any payment in advance. Therefore it will recognize expense to the extent that the local government has provided mental health services to prisoners.
Recognition – Resource Provider	DR Expense CR Provision for mental health services *Recognize expense and provision as vaccinations are performed* DR Provision for mental health services CR Grant payable *Recognize payable and recognize decrease in provision at the point that payment is due* DR Grant payable CR Cash *Recognize decrease in grant payable and recognize decrease in cash when the central government pays for the mental health services* The only difference between Variation A (single payment) and Variation B (monthly payments) is the timing of the payment of cash.
Recognition – Service Provider	DR Mental health services – Work in progress CR Revenue from providing mental health services *Recognize revenue and work in progress as services are provided* DR Revenue receivable CR Mental health services – Work in progress *Recognize receivable and recognize decrease in work in progress at the point that payment is due* DR Cash CR Revenue receivable *Recognize cash and recognize decrease in receivable when the central government pays for the services* The only difference between Variation 1 (single payment) and Variation 2 (monthly payments) is the timing of the receipt of cash.

Example 2: Mental Health Services – Comments

See Example 1 comments.

Example 3 Dental Services

Performance Obligation with Additional Factor (Timing Restriction)

	Grant from a central government to a local government health department to provide dental services to low-income families.
Specifications (Quantity, quality, location, timing of services)	Quantity not specified. Industry guidelines are expected to be followed. Location not specified. The dental services are to be provided from 1 July onwards, which is the beginning of the recipient's fiscal year.
Cost	The funding provider will pay for 50 percent of the costs to provide services, up to a maximum amount.
Timing of payment (or return of payment)	The funding provider transfers the expected amount of the grant to the service provider as soon as the grant agreement is signed, on 15 June (CU10,000). The funding provider can demand a full refund if the resources are spent before 1 July or a partial refund (on a pro rata basis) at any time up until the dental services have been provided. Variation: Payment is made on 1 July (the beginning of the financial year). There is no return obligation if the funds are spent by 30 June (the end of the year).
Availability of funds	The resource provider has access to authorized funds.

Example 3 Dental Services – IPSAS 19			
Is there a present obligation as a result of an obligating event?	The obligating event is the provision of dental services by the local government health department. As the services are provided, the central government becomes obligated for the funding for those services. At the time of advance payment, there is no present obligation to the central government.		
Is there a probable outflow of resources?	Yes, but only when the service provider provides the dental services.		
Can the amount of the obligation be estimated reliably?	Yes, the resource provider pays 50 percent of actual costs up to a maximum amount. The costs of providing the dental services can be estimated reliably and used to calculate the amount of the obligation (if advance payment was not made). The amount of the advance payment to be reduced can also be estimated.		
Recognition – Resource Provider	DR Advance grant payments	CU10,000	
	CR Cash		CU10,000
	15 June: When the central government pays for the services		
	DR Expense		

Example 3 Dental Services – IPSAS 19	
	CR Advance grant payments *Throughout year: As dental services are provided – up to value of CU10,000*
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 3 Dental Services – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	Assumptions: • The expected amount of the grant is CU10,000, and this is the amount transferred to the local government health department on 15 June. A liability is a present obligation of the entity for an outflow of resources that results from a past event (*Conceptual Framework*, paragraph 5.14). A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. (*Conceptual Framework*, paragraph 5.15) The *Conceptual Framework* (paragraphs 5.16 and 5.17) states that liabilities must involve an outflow of resources from the entity to be settled. A number of events may give rise to obligations, causing difficulty in the identification of the past event. In this particular example, the cash paid by the central government represents a reduction of asset "cash". However, does the grant agreement create a present obligation to the central government? Because the grant agreement specifies that the local government provide services, the agreement itself is not binding to the central government until the services are provided by the local government. At the time of the grant, which happens to be the time of payment in this example, the outflow does not meet the definition of a liability.
Does the outflow satisfy the criteria for recognition as a liability?	No.
Is the outflow a distribution to owners?	No. The local government is not an owner.
Is the transaction a non-exchange transaction?	Yes. The central government is giving value to the local government without *directly* receiving approximately equal value in exchange. Note that there can be differing views in practice.

Example 3 Dental Services – IPSAS 23 Approach			
Has the recipient satisfied all of the present obligations related to the outflow?	Assumption: • The agreement becomes binding from 15 June. The central government can demand a partial refund at any time until the dental services have been provided. Applying the guidance in IPSAS 23, the local government health department would have a present obligation for the portion of the cash that related to services still to be delivered. There is a return condition under IPSAS 23. Applying the guidance on liabilities in the *Conceptual Framework*, one would probably argue that there is a legal obligation for the local government health department to repay any unused portion of the grant on demand. If the local government health department has a legal obligation to repay the grant to the central government, one also would argue that the central government controls the resource as it can demand repayment until the local government satisfies the present obligations to provide dental services. The recipient has not satisfied all of the present obligation related to the outflow until the dental services are provided.		
Recognition – Resource Provider	DR Advance grant payments	CU10,000	
	CR Cash		CU10,000
	15 June: When the central government pays for the services		
	DR Expense		
	CR Advance grant payments		
	Throughout year: As dental services are provided – up to value of CU10,000		
Recognition – Service Provider	DR Cash	CU10,000	
	CR Revenue in advance		CU10,000
	15 June: When the central government pays for the services		
	DR Revenue in advance		
	CR Revenue from providing dental services		
	Throughout year: As dental services are provided – up to value of CU10,000		

Example 3: Dental Services – Comments

There is no difference between treatment of the transaction when applying IPSAS 19 and applying the IPSAS 23 approach.

The IPSAS 23 analysis above does indicate a similar issue as Examples 1 and 2, regarding classification of transactions as exchange or non-exchange, as well as the consideration of the return condition. IPSAS 23 currently provides different guidance for conditions from restrictions, which may be considered for modification. For payments made in advance, additional guidance may need to be developed.

Example 4 Road Construction

Performance Obligation with Additional Factor (Appropriation)

	Central government reimburses subnational government for the cost of constructing roads.
Specifications	To be specified in each approved project.
Cost	Expected cost and maximum amount to be reimbursed to be specified in each approved project.
Timing of payment	Legislation specifies that payment will be made when the project is complete, subject to authorized funds being available.
Availability of funds	Legislation requires an annual appropriation to cover the expected costs. The appropriation becomes effective at the beginning of the fiscal year. The resources for the program are provided by a petrol tax. In the past there has been a history of the petrol taxes collected not being sufficient to cover the construction projects that have been approved. Appropriation approved 1 June. Effective date of appropriation 1 July. The appropriation can be changed or revoked at any time prior to 1 July.

Example 4 Road Construction – IPSAS 19	
Is there a present obligation as a result of an obligating event?	In some jurisdictions, the appropriation could be considered a constructive obligation that creates valid expectation by the subnational government that the central government will discharge the obligation. In others, if the history of tax collections not being sufficient to cover the approved projects has resulted in the central government not providing funding for the projects, it may be less clear if the appropriation gives rise to a constructive obligation. The obligating event could also be considered to be completion of the project after the appropriation is effective.
Is there a probable outflow of resources?	Yes, when the appropriation is effective and the project is complete.
Can the amount of the obligation be estimated reliably?	Yes, the amount of the project would be known.
Recognition – Resource Provider	Option 1: Appropriation is obligating event when effective (1 July) DR Expense CR Provision for road construction grant *Recognize expense and provision upon effective date of appropriation* Option 2: Completion of project is obligating event as project is in progress, assuming project begins after effective date of appropriation DR Expense CR Provision for road construction grant *Recognize expense and provision based on estimates of project completion*

Example 4 Road Construction – IPSAS 19	
	Option 3: Provision is not recognized until project is complete DR Expense CR Provision for road construction grant *Recognize expense and provision upon final project completion* DR Provision for road construction grant CR Grant payable *Recognize payable and recognize decrease in provision at the point that payment is due – depends on option selected upon initial recognition of the provision* DR Grant payable CR Cash *Recognize decrease in grant payable and recognize decrease in cash when the central government pays for the project*
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 4: Road Construction – IPSAS 19 Comments

This example highlights how the lack of specific guidance in IPSAS 19 may lead to different recognition. Jurisdictional differences also might cause the provision to be recognized at different points in time.

Example 4: Road Construction – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	At what point does the central government have little to no alternative to avoid the outflow of resources? For some jurisdictions, it may be at the time the appropriation is effective. For others it may not. Use of this approach may need to be modified or specifically addressed for this type of transaction.
Does the outflow satisfy the criteria for recognition as a liability?	Potentially, but not clear at this time.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. Although the central government is receiving some benefits from the roads, it is not obtaining control over the roads and is not receiving approximately equal value in return.
Has the recipient satisfied all of the present obligations related to the outflow?	Yes. The subnational government is paid only after it has incurred costs.

Example 4: Road Construction – IPSAS 23 Approach	
Recognition – Resource Provider	Recognition will depend upon the identification of the obligating event. If the appropriation is deemed to be the obligating event, then recognition will occur on the effective date. The completion of the project may be deemed to be the obligating event, in which case the recognition will likely occur later.
Recognition – Service Provider	Agenda paper 8.4 indicates that the subnational government does not control a resource until it receives the funds. However, some may argue that the subnational government does control the resources if the appropriation is effective and the project is underway. The journal entries proposed in that paper are as follows: DR Cash CU100,000 CR Road Revenue CU100,000 *Recognize reimbursements as they are received.* *These entries may change depending upon the conclusions reached regarding the appropriation*

Example 4: Road Construction – IPSAS 23 Comments

Identification of the obligating event will be a key factor in consideration of recognition. The effects of an appropriation of the resource provider will need to be considered in application of IPSAS 23. This example also demonstrates the potential for lack of symmetry that should be considered when developing guidance for both the resource provider and service provider.

Example 5 Low Income Transfer

No Performance Obligation with Additional Factor (Eligibility Requirement)

	Central government provides funding to local jurisdiction based on the average income of the residents in the jurisdiction.
Specifications	Not applicable
Cost	CU100,000
Timing of payment	At the end of each quarter for the preceding quarter.
Availability of funds	Authorized funds are available.
Eligibility requirements	Variation 1: Residents of the local jurisdiction must have an average income under the specified level as at 1 July. Variation 2: Residents of the local jurisdiction must have an average income under the specified level as at the end of each quarter.

Example 5 Low Income Transfer – IPSAS 19	
Is there a present obligation as a result of an obligating event?	Variation 1: The obligating event would either occur or not occur at 1 July, depending upon whether or not the residents met the income criterion. Variation 2: The obligating event would occur at the end of each quarter.
Is there a probable outflow of resources?	Yes, once the income level of the residents of the local government is ascertained.
Can the amount of the obligation be estimated reliably?	Yes.
Recognition – Resource Provider	Variation 1: DR Expense CU400,000 CR Provision for transfer CU400,000 *Recognize expense and provision at 1 July provided residents have met income criterion* DR Provision for transfer CR Payable *Recognize payable and recognize decrease in provision at the point that payment is due* DR Payable CR Cash *Recognize decrease in grant payable and recognize decrease in cash when the central government transfers funds* Variation 2: DR Expense CU100,000 CR Provision for transfer CU100,000

Example 5 Low Income Transfer – IPSAS 19	
	Recognize expense and provision at the end of each quarter provided residents have met income criterion Remaining entries are unchanged, other than the amount.
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 5 Low Income Transfer – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	<u>Variation 1</u> Assume that the average income of the residents of the local jurisdiction is under the specified level on 1 July. As at 1 July the local jurisdiction meets the eligibility criteria to be entitled to four payments of CU100,000 throughout the year. *Is there a past event?* Yes, meeting the eligibility criteria as at 1 July is the past event. *Will there be an outflow of resources to settle the obligation?* Yes *Can the central government avoid the outflow?* Not likely. <u>Variation 2</u> Assume that the average income of the residents of the local jurisdiction is under the specified level at the end of each quarter. As at 1 July the eligibility requirement has not been met; therefore, there is no past event. At the end of each quarter the local jurisdiction meets the eligibility criteria and there is a past event.
Does the outflow satisfy the criteria for recognition as a liability?	Yes. The definition of a liability is met and the amount is measurable.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. The central government is providing value to the local government without directly receiving goods or services in exchange.
Has the recipient satisfied all of the present obligations related to the outflow?	The local jurisdiction has no present obligations in relation to the funding.

Example 5 Low Income Transfer – IPSAS 23 Approach			
Recognition – Resource Provider	Under variation 1, if the central government cannot avoid the outflow		
	DR Transfer Expense	CU400,000	
	CR Payable		CU400,000
	1 July: When the local jurisdiction meets the eligibility criteria		
	DR Payable	CU100,000	
	CR Cash		CU100,000
	At the end of each quarter		
	Under variation 2 (and variation 1 if there is no obligation at 1 July)		
	DR Cash	CU100,000	
	CR Revenue from Transfers		CU100,000
	At the end of each quarter		
Recognition – Service Provider	Under variation 1, if the entity has an enforceable right as at 1 July		
	DR Accrued Revenue	CU400,000	
	CR Revenue from Transfers		CU400,000
	1 July: When the local jurisdiction meets the eligibility criteria		
	DR Cash	CU100,000	
	CR Accrued Revenue		CU100,000
	At the end of each quarter		
	Under variation 2 (and variation 1 if there is no enforceable right as at 1 July)		
	DR Cash	CU100,000	
	CR Revenue from Transfers		CU100,000
	At the end of each quarter		

Example 5: Low Income Transfer – IPSAS 23 Comments

No specific modifications to the IPSAS 23 approach are highlighted in this example.

Example 6: Funding of Public Sector University

No Performance Obligation with Additional Factor (Timing Restriction)

	Central government agrees to provide general funding to a public sector university.
Specifications	Not applicable
Cost	CU100,000 per annum
Timing of payment	Five payments of CU20,000 each year, for two years. Delayed payment or non-payment could occur due to central government overspending in other areas. Variation: all payments are received 12 months after they are expected.
Availability of funds	An annual appropriation is required. Appropriations are approved on 1 June and effective from 1 July.
Eligibility requirements	Not applicable.

Example 6 Funding of Public Sector University – IPSAS 19	
Is there a present obligation as a result of an obligating event?	No. Delayed payment or non-payment could occur due to overspending.
Is there a possible obligation?	Yes, the central government may be obligated after the annual appropriation and if overspending does not occur.
Is the possibility of outflow or service potential remote?	Answer would depend on situation of the provider at the end of the reporting period. Assume that the central government had not overspent in other areas: outflow would not be remote and a contingent liability would be disclosed. Assume that the central government *had* overspent in other areas: outflow would be remote, no provision is recognized and no disclosure is made.
Recognition – Resource Provider	Recognition would occur at time of payment only in the situations described.
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 6 Funding of Public Sector University – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	Consider whether there is a liability at: • 1 June; • 1 July; and • When each payment of CU20,000 is expected. At 1 June, although the appropriation has been approved, the central government does not have a present obligation because (i) the appropriation

Example 6 Funding of Public Sector University – IPSAS 23 Approach	
	is not yet effective; and (ii) the government might decide it does not have sufficient funds. At 1 July the central government does not have a present obligation because the government still might decide it does not have sufficient funds. Even when each payment is expected the central government does not have a present obligation because the outflow can still be avoided if the government decides it has overspent in other areas. Variation: The analysis would be the same under the variation.
Does the outflow satisfy the criteria for recognition as a liability?	At the point that the central government makes the cash payment the outflow meets the definition of a liability and it is measureable.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. The central government is providing value to the central government without *directly* receiving goods or services in exchange. There are differing views in practice.
Has the recipient satisfied all of the present obligations related to the outflow?	The university has no present obligations in relation to the funding. The central government may have expectations about how the funding will be used. However, there is no evidence that (i) any requirements have been specified; (ii) the central government will monitor the use of the funds; or (iii) there are any consequences for not using the funds in the way the central government intended.
Recognition – Resource Provider	DR Expense/Transfers CU20,000 CR Cash CU20,000 *As payment is made*
Recognition – Service Provider	DR Cash CU20,000 CR Revenue from Transfers CU20,000 *As payment is received*

Example 6: Funding of Public Sector University – IPSAS 23 Comments

Situations where public sector entities receive funds in advance or in arrears can lead to large fluctuations in reported performance, despite fairly constant levels of activity within the public sector entity. Modifications to this treatment may be considered in current projects.

Example 7 Grant with No Requirements

No Performance Obligation with No Additional Factors

	Public sector entity transfers funds to another public sector entity for immediate use in any manner by the recipient.
Specifications	Not applicable
Cost	CU100,000
Timing of payment	Payable at the beginning of the year.
Availability of funds	Assume that amount transferred was appropriately authorized by an appropriation.
Eligibility requirements	Not applicable.

Example 7 Grant with No Requirements – IPSAS 19	
Is there a present obligation as a result of an obligating event?	No.
Is there a possible obligation?	No.
Recognition and Disclosure – Resource Provider	No recognition or disclosure is required by IPSAS 19. Recognition of the cash payment as a transfer would occur.
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 7 Grant with No Requirements – IPSAS 23 approach	
Does the outflow give rise to an item that meets the definition of a liability?	No obligation to the public sector entity until transfer of funds.
Does the outflow satisfy the criteria for recognition as a liability?	No.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. The recipient is receiving value from the central government without *directly* providing goods or services in exchange. In fact there is no requirement to provide any goods and services.

Example 7 Grant with No Requirements – IPSAS 23 approach	
Has the recipient satisfied all of the present obligations related to the outflow?	The recipient has no present obligations in relation to the funding. No stipulations, eligibility requirements, or other considerations are specified in this example.
Recognition – Resource Provider	DR Transfers CU100,000 CR Cash CU100,000 *As payment is made*
Recognition – Service Provider	DR Cash CU100,000 CR Revenue from Transfers CU100,000 *As payment is received*

Example 7: Grant with No Requirements – IPSAS 23 Approach Comments

The grant does not include any of the challenges reported by preparers. There are no timing requirements, no performance obligations, and no stipulations.

Example 8 Forgiveness of Loan

No Performance Obligation with No Additional Factors

	Public sector entity forgives the remaining amount owed to it by another public sector entity.
Specifications	Not applicable
Cost	CU50,000
Timing of payment	No cash flow. The decision to forgive the balance of the loan is made at the end of January and communicated to the entity owing the funds in February.
Availability of funds	Assume that the expense for the amount forgiven was appropriately authorized by an appropriation.
Eligibility requirements	Not applicable.

Example 8: Forgiveness of Loan – Comments

IPSAS 23 addresses revenue from the forgiveness of an entity's loan. IPSAS 29, *Financial Instruments: Recognition and Measurement* specifically address loan forgiveness for the loan holder (resource provider) through the guidance on derecognition of financial assets. Neither IPSAS 19 nor IPSAS 23 would apply.

Example 9 Research Agreement: Health

Performance Obligations With Additional Factor (Eligibility Requirement)

	A government gives money to a university for research into the most effective way of helping people to stop smoking.
Specifications (Quantity, quality, location, timing of services)	The project will result in a research report. Key milestones include: completion of literature review, collection of data and completion of the report. The research agreement will specify how the project will be carried out (for example, the role of the Project Leader, other university employees and students). The project is subject to certain codes of ethics and requires approval from an ethics committee. The research will be conducted at the University, using the University's facilities. The agreement commences on the effective date and terminates at the completion of the project.
Cost	CU100,000 Details of the funds spent must be provided, and, if there is any unspent funds, they must be repaid to the Government at the end of the research.
Timing of payment	There are to be three payments: 50% of the total within 10 working days of signing the agreement. 40% of the total on satisfactory completion of data collection. 10% of the total on satisfactory receipt of the final report. Variation: The Government will fund the actual project costs, up to a maximum of CU100,000. The University will invoice the Government quarterly.
Availability of funds	The Government has authorized funds available.
Other	The University has the right to publish the results of the research. The Government has the right to use the research findings in developing its policies and can make the findings available to others. The Government can cancel the agreement immediately if the University is in serious breach of the agreement.

Example 9 Research Agreement: Health – IPSAS 19	
Is there a present obligation as a result of an obligating event?	Not until the final report is received by the Government. Once the final report is received, there is a present obligation; however, it is likely to be recorded as either an accrual or a payable, not a provision.
Is there a possible outflow of resources?	Yes, provided the University commences research, the Government could conclude that there is a possible outflow of resources in the future.

Example 9 Research Agreement: Health – IPSAS 19	
Is the possibility of outflow or service potential remote?	At various points in time, the central government may arrive at different conclusions regarding the likelihood of possible outflows. In the early stages of the research, the likelihood of possible outflows may be more uncertain than in later stages. Once certain milestones have been reached, the likelihood of potential outflow of resources may become more certain.
Recognition and Disclosure – Resource Provider	The central government may conclude the disclosure of a contingent liability is necessary if the research has progressed sufficiently to indicate that the possibility of outflow
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23 or IPSAS 9, depending upon classification of the grant as a non-exchange or exchange transaction. See below for recognition by the service provider.

Example 9 Research Agreement: Health – IPSAS 19 Comments

While the application of IPSAS 19 may result in the disclosure of a contingent liability, in practice it is likely that many entities do not disclose such items as they are not specifically included in the examples of IPSAS 19. Further clarification of the scope of IPSAS 19 may be necessary if this is the preferred option.

Example 9 Research Agreement Health – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	The government providing resources will make three payments: • 50% of the total within 10 working days of signing the agreement • 40% of the total on satisfactory completion of data collection. • 10% of the total on satisfactory receipt of the final report. Because the government has provided payment at the beginning of the agreement that is in advance of the related obligation, the funds paid do not represent an expense of the current period. The agreement includes a refund provision if the funds are not spent appropriately; therefore, the recipient would likely recognize a liability for the funds received in advance. Likewise, the resource provider would recognize an asset or deferred outflow instead of an expense. Variation: Once the resource provider is invoiced by the University, the resource provider is obligated for the expenses, provided they qualify. This variation may be addressed through the obligating events approach described in the social benefits project as well.
Does the outflow satisfy the criteria for recognition as a liability?	No. On payment of the cash the government is not yet obligated, although the outflow is measurable. Variation: At the end of each month the government resource provider will have an item that meets the definition of a liability and is measurable.
Is the outflow a distribution to owners?	No, either variation.
Is the transaction a non-exchange transaction?	Classification of this type of transaction is subject to interpretation. Clarification of the definition of non-exchange may assist in the classification.
Has the recipient satisfied all of the	Assumption: • The agreement is enforceable.

Example 9 Research Agreement Health – IPSAS 23 Approach	
present obligations related to the outflow?	• The government will enforce the agreement. If the transaction is recognized as an exchange transaction, present obligation likely are met when the research report is delivered. However, if the transaction is considered to be a non-exchange transaction, then the government would need to evaluate if the recipient University had satisfied all of the present obligations related to the outflow. <u>IPSAS 23 paragraphs 50-58</u> The University has a duty to act or perform in a certain way. It has to conduct the steps in the research project and make the research report available to the Government. The present obligations are imposed by the agreement with the Government. The Government has imposed the condition that any unspent funds must be repaid to the Government. IPSAS 23 paragraph 55 states that conditions on a transferred asset give rise to a present obligation that is recognized if it satisfies the recognition criteria in paragraph 50 (probable outflow to settle the obligation and reliable estimate). The obligation to perform the research would constitute a present obligation that satisfied the recognition criteria in IPSAS 23. The IPSAS 23 approach could include guidance for resource providers that funds paid in advance with return conditions represent a present obligation of the recipient and a potential asset to the resource provider. The resource provider can control the funds paid in advance as it can require a refund from the University. <u>Conceptual Framework paragraphs 5.6-5.26</u> A present obligation of the entity for an outflow of resources that results from a past event. The University has a legally binding obligation to conduct the research and complete the research report. The Government can require that the University return any unspent money. Presumably it could use legal remedies to force the University to complete the research. Variation: Yes, because the University is invoicing in respect of costs to be reimbursed.
Recognition – Resource Provider	The journal entries if the IPSAS 23 approach was applied would be as follows: DR Research grant advance CU50,000 CR Cash CU50,000 *On payment of 50% of the total within 10 working days of signing the agreement* DR Research grant advance CU40,000 CR Cash CU40,000 *On payment of 40% of the total on satisfactory completion of data collection* DR Research grant advance CU10,000

Example 9 Research Agreement Health – IPSAS 23 Approach	
	CR Cash CU10,000 *On payment of 10% of the total on satisfactory receipt of the final report* DR Research grant expenses (up to CU100,000) CR Research grant advance (up to CU100,000) *Over the life of the project, with the final entry occurring on completion of the research report* DR Project expenses (up to CU100,000) CR Revenue (up to CU100,000) *Over the life of the project, with the final entry occurring on completion of the research report*
Recognition – Service Provider	The journal entries if IPSAS 23 or the *Conceptual Framework* were applied would be as follows: DR Cash CU50,000 CR Performance obligation CU50,000 *On receipt of 50% of the total within 10 working days of signing the agreement* DR Cash CU40,000 CR Performance obligation CU40,000 *On receipt of 40% of the total on satisfactory completion of data collection* DR Cash CU10,000 CR Performance obligation CU10,000 *On receipt of 10% of the total on satisfactory receipt of the final report* DR Performance obligation (up to CU100,000) CR Revenue (up to CU100,000) *Over the life of the project, with the final entry occurring on completion of the research report* *Note: the journals for project expenses are not shown*

Example 9 Comments

This example demonstrates a transaction in which there may differing views on the classification of a transaction as exchange or non-exchange. Further clarification may need to be considered.

This example describes an agreement with a relatively clear refund provision. In practice, some refund provisions may not be as clear and may be treated as restrictions instead of conditions. Further guidance may explore whether restrictions and conditions should continue to have different treatment or whether they should have the same effects on the accounting for the transactions.

Example 10: Research Agreement: Science

Performance Obligations with Additional Factor (Timing Requirement)

	A government agrees to fund a five year project to develop ground motion prediction models for global shallow crustal earthquakes.
Specifications (Quantity, quality, location, timing of services)	An annual report on progress is required at the end of each year. The research agreement will specify how the project will be carried out (for example, the role of the Project Leader, other University employees and students). The research will be conducted at the University, using the University's facilities. The agreement commences on the effective date and terminates at the completion of the project.
Cost	CU500,000
Timing of payment	100,000 is to be provided at the beginning of each year. The University does not have to refund any unspent money.
Availability of funds	The funds for the project have to be appropriated each year.
Other	The University has the right to publish the results of the research.

Example 10 Research Agreement: Science – IPSAS 19	
Is there a present obligation as a result of an obligating event?	The University is obligated to perform research as described in the research agreement. As the research is performed, some may argue that the government has an obligation – conducting the research is the obligating event. Some may argue that the research agreement itself is the obligating event. The agreement may constitute a constructive obligation; however, the University is required to perform research. If the University did not perform, the research, the government could realistically avoid the outflow of resources. Therefore, the obligating event is likely to be University conducting the research.
Is there a probable outflow of resources?	Yes, but only once the research is conducted. The annual appropriation may also affect the evaluation of the probable outflow of resources. If the annual appropriation is not made, the outflow may not be probable. Jurisdictional factors may affect that evaluation.
Can the amount of the obligation be estimated reliably?	Yes, the annual progress report can be used to assist in determining the progress. Also, each year is subject to appropriation of a specified amount. Because the funding is provided up front at the beginning of the year, the advance payment represents an asset of the government and no provision is likely necessary. Although there is no refund due for unspent funds, the agreement requires the University to conduct the research. If the research is not conducted according to the agreement, the government would likely be able to force the University to repay the funds.

Example 10 Research Agreement: Science – IPSAS 19	
Recognition – Resource Provider	DR Research grant advance CU100,000 CR Cash CU100,000 *Recognize an advance when funding is provided at the beginning of the year* DR Research grant expense CR Research grant advance *Recognize expense as the research is conducted and reduce the advance accordingly*
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 10 Research Agreement: Science – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	Because the government has provided payment at the beginning of the agreement that is in advance of the related obligation, the funds paid do not represent an expense of the current period. The agreement does not include a refund provision for unspent funds, the agreement requires the University to conduct research. If the research is not conducted according to the agreement, the government would likely be able to force the University to repay the funds. Therefore, the outflow does not give rise to a liability. The funds paid at the beginning of the year are recognized as an expense, but not the future payments.
Does the outflow satisfy the criteria for recognition as a liability?	No.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes. Differing views may be held in practice. Some may view this transaction as very similar in nature to Example 9, resulting in different treatment from that shown above.
Has the recipient satisfied all of the present obligations related to the outflow?	IPSAS 23 requires the recognition of present obligations arising from conditions on a transferred asset. This example would not meet the IPSAS 23 test. However when you look at the description of a present obligation in the *Conceptual Framework*, it is possible to argue that the University has a present obligation to spend the funds in performing the research. It does not have an obligation to return unspent funds, but if there is an enforceable research agreement the Government could take action to require the University to conduct the research.
Recognition – Resource Provider	DR Expense CU100,000 CR Cash CU100,000 *On payment of the cash at the beginning of each year*

Example 10 Research Agreement: Science – IPSAS 23 Approach			
Recognition – Service Provider	DR Cash CR Revenue *On receipt of the cash at the beginning of each year*	CU100,000	 CU100,000

Example 10: Research Agreement: Science – IPSAS 23 Comments

Similar to Example 9, this Example demonstrates the potential differences in classification of a transaction as exchange or non-exchange. This Example also shows the challenge to identify a condition compared to a present obligation. Modifications to the IPSAS 23 approach may consider ways in which to address these challenges.

Example 11 Licence Fees

<table>
<tr><td></td><td>A central government operates a vehicle quota system and vehicle ownership tax to moderate the growth of the vehicle population at a rate that can be supported by the road network.
Vehicle owners must pay a registration fee, an additional registration fee and a road tax.</td></tr>
<tr><td>Specifications (Quantity, quality, location, timing of services)</td><td>Registration fee: This fee covers the costs of registering a vehicle. It is collected upon registration of the vehicle. Registration officially recognizes the person as the person legally responsible for the vehicle.

Additional registration fee: This fee is a tax imposed upon registration of a vehicle. It is calculated based on a percentage of the Open Market Value (OMV) of the vehicle.

Road tax: All vehicle owners must have a valid vehicle licence for their vehicles before these vehicles can be used on the roads.

Most road taxes are renewable on a six-month or yearly basis. Vehicle owners must fulfil the prerequisites (e.g. obtain motor insurance coverage for the new licensing period, pass the periodic vehicle inspection, etc.) prior to the renewal of the vehicle licences.</td></tr>
<tr><td>Cost</td><td>Registration fee: CU150

Additional registration fee: This is based on a percentage of the Open Market Value (OMV) of the vehicle.

<table><tr><th>Vehicle OMV</th><th>Rate</th></tr><tr><td>First CU20,000</td><td>100%</td></tr><tr><td>Next CU30,000
(i.e. CU20,001 to CU50,000)</td><td>140%</td></tr><tr><td>Above CU50,000</td><td>180%</td></tr></table>
Road tax: This is based on the engine capacity.</td></tr>
<tr><td>Timing of payment</td><td>Registration and the additional registration fee are paid when the vehicle is first registered.
The road tax is renewable on a six-month or yearly basis.</td></tr>
<tr><td>Availability of funds</td><td>Not applicable.</td></tr>
<tr><td>Eligibility criteria</td><td>No specific criteria over and above the specifications set out above.</td></tr>
</table>

Example 11 License Fees – IPSAS 19	
Is there a present obligation as a result of an obligating event?	Yes, the public sector entity that owns a vehicle is obligated for the fee when the taxable event occurs.

Example 11 License Fees – IPSAS 19	
Is there a probable outflow of resources?	Yes.
Can the amount of the obligation be estimated reliably?	Yes.
Recognition – Resource Provider	DR Vehicle Fees Expense CR Payable *Recognize fee when the taxable event occurs.*
Recognition – Service Provider	The service provider would follow guidance currently in IPSAS 23. See below for recognition by the service provider.

Example 11 License Fee – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	Yes, the public sector entity owning the vehicle is legally obligated for the fee.
Does the outflow satisfy the criteria for recognition as a liability?	Yes.
Is the outflow a distribution to owners?	No.
Is the transaction a non-exchange transaction?	Yes.
Has the recipient satisfied all of the present obligations related to the outflow?	Yes.
Recognition – Resource Provider	DR Expense CR Payable *When the taxable event occurs*
Recognition – Service Provider	DR Receivable CR Revenue *When the taxable event occurs*

Example 12: Construction Contracts Settled by Third Parties

	Funding from a central government to a port authority that is part of a local government to construct a wharf.
Specifications (Quantity, quality, location, timing of services)	The central government is one of three entities contributing funds to the port authority's wharf. The central government will pay the contractors directly for the cost of the wharf. Upon completion, the port authority retains control of the wharf.
Cost	The central government will pay for the first 1/3 of the construction cost.
Timing of payment	The first 1/3 of the construction invoices are sent directly to the central government. Payments are made to the contractors on receipt of the invoice.
Availability of funds	The central government has authority to spend the funds.
Eligibility criteria	No specific criteria over and above the specifications set out above.

Example 12 Construction Contracts Settled by Third Parties – IPSAS 19	
Is there a present obligation as a result of an obligating event?	Yes, the central government is obligated to pay for the services rendered by the contractors.
Is there a probable outflow of resources?	Yes.
Can the amount of the obligation be estimated reliably?	Yes.
Recognition – Resource Provider	DR Infrastructure Transfer CR Payable/Cash *Throughout the year, as the wharf is constructed and contractor invoices are received, up to the maximum amount of 1/3 of total construction costs.*
Recognition – Service Provider	See Agenda Paper 8.4.

Example 12 Construction Contracts Settled by Third Parties – IPSAS 23 Approach	
Does the outflow give rise to an item that meets the definition of a liability?	Yes, the central government is obligated to pay for the services rendered by the contractors.
Does the outflow satisfy the criteria for recognition as a liability?	Yes.
Is the outflow a distribution to owners?	No.

Example 12 Construction Contracts Settled by Third Parties – IPSAS 23 Approach	
Is the transaction a non-exchange transaction?	Yes. The central government does not directly benefit from construction of the wharf.
Has the recipient satisfied all of the present obligations related to the outflow?	Yes.
Recognition – Resource Provider	DR Infrastructure Transfer CR Payable/Cash *Throughout the year, as the wharf is constructed and contractor invoices are received, up to the maximum amount of 1/3 of total construction costs.*
Recognition – Service Provider	DR Wharf CR Revenue from donated goods *Throughout the year as the wharf is constructed.*

REVENUE AND NON-EXCHANGE EXPENSES
Performance Obligation Approach

Objectives of the Issues Paper

1. The objective of this issues paper is to provide an overview of the work that has been done in relation to the key issues in Phase 1 of the revenue and non-exchange expenses projects and seek direction from IPSASB on the performance obligation approach alternative discussed in this paper and the future direction of this project.

2. The examples in the Appendix are intended to support the discussion of key issues. Board members may find it helpful to refer to the examples when discussing the key issues, but we do not intend to discuss each example.

Background

3. At its March 2015 meeting the IPSASB approved project briefs for a revenue project and a non-exchange expenses project.

4. The primary goal of the revenue project was to update the requirements and guidance currently set out in:

    (a) IPSAS 9, *Revenue from Exchange Transactions*;

    (b) IPSAS 11, *Construction Contracts*; and

    (c) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

5. The project brief for the revenue project suggested that the project be conducted in two phases, with the first phase exploring possible approaches. The project brief suggested that the IPSASB should consider the number of proposed revenue standards and whether to issue a Consultation Paper for this project once the first phase had been completed.

6. The IPSASB also approved a project brief to undertake a project to provide guidance on non-exchange expense transactions other than social benefits, which suggested the project be conducted in two phases. The first phase could examine the implications of the *Conceptual Framework* and current IPSASB standards dealing with recognition and measurement for provisions and contingent liabilities (IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*) and consider the implications related to non-exchange expense transactions in the public sector.

7. The project brief for the non-exchange expense suggested that once the first phase had been completed, the IPSASB should consider whether to issue a Consultation Paper, whether to issue an IPSAS on non-exchange expenses, an IPSAS on all non-exchange transactions, or to issue an amendment to IPSAS 19 to clarify its application to certain non-exchange transactions.

8. Recent meetings have focussed on the following matters:

June 2015

(a) The agenda papers for the revenue project suggested that two revenue standards are likely to be needed. One standard could deal with revenue with performance obligations, using the ideas in IFRS 15, *Revenue from Contracts with Customers* as a starting point. The other standard could deal with the remaining revenue transactions, most of which are currently dealt with in IPSAS 23.

(b) The agenda papers for the non-exchange expense project explored potential modifications to the definition of non-exchange transactions and considered the scope of the project on non-exchange expenses. The papers also discussed the recognition approaches from the social benefits project to explore possible application to non-exchange expense transactions other than social benefits.

September 2015

(c) The agenda papers for this meeting considered the overlap between the projects on revenue and on non-exchange expenses (September agenda paper 7.1) and considered issues raised by constituents in relation to IPSAS 23 (September agenda paper 8.1). Staff suggested that a sensible way forward could be to look at applying a performance obligation approach (based on IFRS 15) *and* IPSAS 23 to a range of revenue examples.

(d) The agenda papers also explored characteristics of non-exchange transactions that may assist in clarifying and operationalizing the definition of non-exchange and described the boundaries of the non-exchange expense project. The IPSASB also discussed whether the exchange/non-exchange classification approach should continue to be explored and considered for application to guidance for non-exchange transactions of resource providers.

9. In this meeting we are attempting to pull together the work that has been done in the first phase of the project and seek direction from IPSASB on the future direction of this project. This includes making tentative decisions on the general direction on the standards for these projects and whether to issue Consultation Papers on these projects. This paper focuses on the performance obligation approach that was introduced at prior meetings. A companion paper (Agenda Paper 8.3) addresses an alternative approach based on the traditional exchange/non-exchange transaction classification.

Structure and Focus of This Paper

10. The remaining sections in this issues paper are:

(a) Why Look at Performance Obligations?;

(b) A Closer Look at IFRS 15;

(c) Categories of Transactions – When is IFRS 15 Appropriate?;

(d) Next Steps; and

(e) Appendix 1: Examples.

Examples

11. As suggested in September, we have considered the application of different approaches to a number of examples. These examples are set out in an Appendix to this paper. The purpose of developing these examples was to look at the nature of the performance obligations in the examples, to identify the types of performance obligations to which the recognition model in IFRS 15 (also referred to as the performance obligation approach) could sensibly be applied, and to do some initial thinking about the application of the *Conceptual Framework* to various revenue and non-exchange expense transactions. In order to assist the Board in thinking about the interaction between this project and the non-exchange expenses project, the examples include situations where the non-exchange revenue would be non-exchange expenses of another public sector entity.

12. We do not intend to go through all the examples at the meeting.

Phase 1 Issues

13. We have drawn on the work done on the examples and in previous agenda papers to address the key issues in Phase 1 of these projects.

14. Table 1 below shows the key issues to be addressed in Phase 1 of the revenue project, and how we have attempted to address these key issues, both in the work done to date and in these agenda papers.

Table 1 Phase 1 Key Issues – Revenue Project

Key Issue	Work done to address key issue
Key Issue #1— What are the similarities and differences between the approach in IPSAS 23 and IFRS 15?	The March agenda papers contained an overview of the approaches in current IPSASs and IFRS 15. Appendix 1 of this agenda paper looks at the application of the revenue recognition model in IFRS 15 and the approach in IPSAS 23 to a number of examples. One of our observations is that the timing of payment is less important under IFRS 15 than IPSAS 23. Because IFRS 15 deals only with contracts with customers, it presumes that money received in advance represents a liability until the performance obligation is satisfied. IPSAS 23 is based on a different presumption. It presumes that a public sector entity receiving money in advance will keep the money unless there is clear evidence to the contrary that a liability exists (in the form of a condition to return unused money). Another observation is that IFRS 15 deals with a narrower set of performance obligations than IPSAS 23.

Key Issue	**Work done to address key issue**
Key Issue #2— What type of modifications would be required for IFRS 15 to be suitable for application to a wide range of revenue transactions in the public sector (including some revenue transactions currently within the scope of IPSAS 23)?	The June agenda papers identified some potential modifications to IFRS 15. Before an IFRS 15 approach could be applied in the public sector the IPSASB would need to form a view about what revenue transactions (and performance obligations) might be within the scope of such a standard. This is the main focus of this Issues Paper. This Issues Paper also includes a brief update on what is happening in other jurisdictions (for example, Australia, United Kingdom and United States) that are in the process of considering the application of IFRS 15 to public sector or not-for-profit entities.
Key Issue #3— How many IPSASs should the IPSASB develop?	If the IPSASB agrees to develop a standard along the lines of IFRS 15, our view is that a residual revenue standard such as IPSAS 23 would still be necessary.
Key Issue #4— Should the IPSASB issue a Consultation Paper before developing Exposure Drafts?	Refer Agenda Paper 8.5. Because this project involves a number of significant issues, we are recommending that the IPSASB agree to issue a Consultation Paper.

15. Table 2 below shows the key issues to be addressed in Phase 1 of the non-exchange expenses project, and how we have attempted to address these key issues, both in the work done to date, and in these agenda papers.

Table 2 Phase 1 Key Issues – Non-Exchange Expenses Project

Key Issue	**Work done to address key issue**
Key Issue #1— What are the similarities and differences between the recognition and measurement approach being developed for the recognition of non-exchange revenues?	The September papers considered the overlap of the revenues and non-exchange project. This paper, including the examples, considers the recognition models for the same non-exchange transactions from both a service provider/recipient viewpoint and a resource provider viewpoint.
Key Issue #2— What are the similarities and differences between the recognition and measurement approach being developed for social benefits?	The September paper and discussion explored the potential application of the three models considered in the social benefits project to the non-exchange expense transactions other than social benefits. The obligating events approach was considered to have potential application to the transactions considered within the non-exchange expenses project. This paper discusses the potential use of the obligating events approach to non-exchange transactions other than social benefits.

Key Issue	Work done to address key issue
Key Issue #3— What should be the scope of the IPSAS that the IPSASB would develop (for example, all non-exchange transactions, all non-exchange expense transactions, all non-exchange expense transactions other than social benefits)?	To be determined.

Why Look at Performance Obligations

16. One of the main drivers for looking at performance obligations in this project is because IFRS 15 uses a performance obligation approach to the recognition of revenue from contracts with customers. We are interested in whether an IFRS 15 type approach could work for certain revenue and non-exchange expense transactions in the public sector, and if so, which ones, and what type of modifications would be required. The questions about "which transactions" and "what modifications" will need to be considered together. The more modifications made, the broader the scope of a standard could be.

17. Previous agenda papers (March 2015) have suggested that an IFRS 15 approach, with modifications, could work for some transactions in the public sector. We find it helpful to think of revenue transactions in three groups:

    (a) Category A: those that would clearly fall within the scope of IFRS 15 (limited to revenue transactions);

    (b) Category B: those revenue and expense transactions where an IFRS 15 approach might be possible, but where significant changes to the IFRS 15 approach would be required; and

    (c) Category C: those revenue and expense transactions where an IFRS 15 type approach would not be appropriate, and residual standards, similar to IPSAS 23 and IPSAS 19, would be required.

18. For each group we will refer to the examples, and consider the nature of any performance obligation.

19. Before we can do this, we need to look more closely at the scope of IFRS 15 and the performance obligations associated with transactions that fall within the scope of IFRS 15. When we are talking about IFRS 15 we have used IFRS 15 terminology, such as contracts and customers. Obviously any IPSAS that was developed would need to use terminology appropriate for the public sector.

A Closer Look at IFRS 15

Scope of IFRS 15

20. IFRS 15 applies only to a subset of revenue in the IASB's *Conceptual Framework*. IFRS 15 applies to all contracts with customers except for:

    (a) Lease contracts within the scope of IAS 17 *Leases*;

(b) Insurance contracts within the scope of IFRS 4 *Insurance Contracts*;

(c) Financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, and the standards dealing with interests in other entities; and

(d) Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

21. IFRS 15 *does not* apply to:

(a) Dividends (these are now dealt with in IFRS 9, Financial Instruments);

(b) Non-exchange transactions such as donations or contributions received (IFRS 15, paragraph BC28); and

(c) Changes in the value of biological assets, investment properties and the inventory of commodity broker traders.

22. The definitions in IFRS 15 affect the scope of the standard. IFRS 15 defines a performance obligation as "A promise in a contract with a customer to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer."

23. An entity recognizes revenue when (or as) it satisfies a performance obligation. Timing of payment does not generally affect recognition of revenue under IFRS 15. Revenue recognition can occur before or after the entity receives payment, or is entitled to payment. If an entity satisfies the performance obligation before it is entitled to payment it recognizes a contract asset. At the point that it becomes entitled to payment, it recognizes a receivable.

24. The notion of transferring control of a good or service is a key part of the revenue recognition model in IFRS 15. Although IFRS 15 is a new standard, the focus on transfer of control is not really a new approach. The concept of transferring control underpinned many of the revenue recognition requirements in previous IFRSs and IPSASs and is consistent with the conceptual frameworks of both the IASB and the IPSASB. What IFRS 15 has done is provide a single set of guidance about the point at which control transfers for a range of revenue transactions. Prior to IFRS 15, there was different guidance for different types of transactions and there was not much guidance on multiple element transactions.

25. In order to understand what types of performance obligations fall within the scope of IFRS 15 we also need to look at some of the other definitions in IFRS 15, particularly the definitions of revenue, contracts and customers.

(a) Revenue: The IFRS 15 definition of revenue is the definition used in the existing IASB *Conceptual Framework*. "Income arising in the course of an entity's ordinary activities."[1] The IPSASB's *Conceptual Framework* does not distinguish between revenue in the course of ordinary activities and revenue outside the course of ordinary activities. This means the

[1] Although the sale of non-financial assets is generally outside the course of an entity's ordinary activities, the IASB did align some of the requirements of IFRS 15 and its standards dealing with non-financial assets (being IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property*). The IASB aligned the requirements on derecognition and measurement of the gain or loss when the asset is derecognized.

IPSASB would need to carefully consider which categories of revenue it wanted to exclude from the scope of a performance obligation standard;

(b) Contracts: IFRS 15 defines a contract as "An agreement between two or more parties that creates enforceable rights and obligations". This is based on common legal definitions of a contract but is deliberately slightly narrower than the definition of a contract used in IAS 32 *Financial Instruments*. IPSASs typically refer to binding arrangements rather than contracts as entities in some jurisdictions do not have the legal authority to enter into contracts. Although the scope of IFRS 15 is based on contracts which are enforceable, it is worth noting that contracts may encompass some performance obligations that are not enforceable (IFRS 15 paragraphs BC32 and BC87). The contract as a whole has to be enforceable to fall within the scope of IFRS 15, but not all of the performance obligations associated with the contract have to be enforceable. The scope of IFRS 15 is slightly broader than a first reading of the definition of a contract would suggest. This distinction might be important for the IPSASB in considering which performance obligations should fall within the scope of a performance obligation standard; and

(c) Customers: IFRS 15 defines a customer as "A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration." As noted above, the IPSASB's *Conceptual Framework* does not distinguish between revenue in the course of ordinary activities and revenue outside the course of ordinary activities. IFRS 15 is based on the notion of transferring control or a good or service to a customer. Where one party pays for goods or services to be delivered to others it is necessary to decide who the customer is. The party that pays for the goods and services is likely to be the customer.

26. To sum up, the main characteristics of performance obligations in IFRS 15 are as follows:

(a) There has to be an external party – the customer;

(b) The entity has promised to transfer control of a good or service to that external party; and

(c) The overall contract creates enforceable rights and obligations between the parties (although some of the performance obligations may be constructive).

The Recognition of Revenue Under IFRS 15

27. In the private sector, a typical sequence of events in a revenue transaction is to perform the service, become entitled to payment and then to receive payment.[2] This means that a contract asset is created, and added to, as the entity undertakes activities that satisfy the performance obligation. A receivable is recognised when payment is due. From the view of the customer, the sequence of events would be to receive the goods or services, become obligated for payment and to make the payment. A contract liability is created, and added to, as the entity undertakes activities to satisfy the performance obligation. This sequence of events from the view of the entity, and the view of the customer, is shown in Diagram 1 below.

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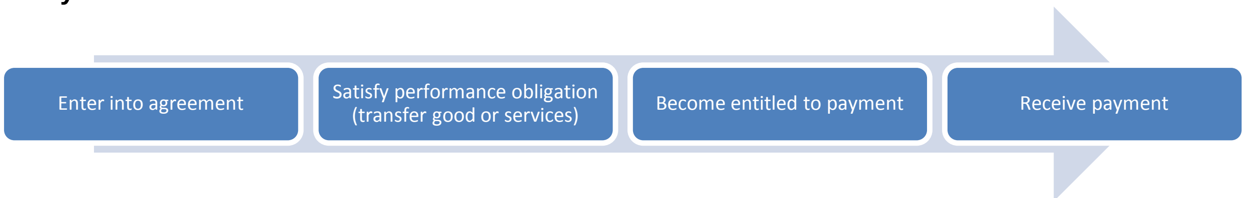
[2] The simplest sequence of events for a revenue or an expense transaction is when the transaction is settled immediately with cash.

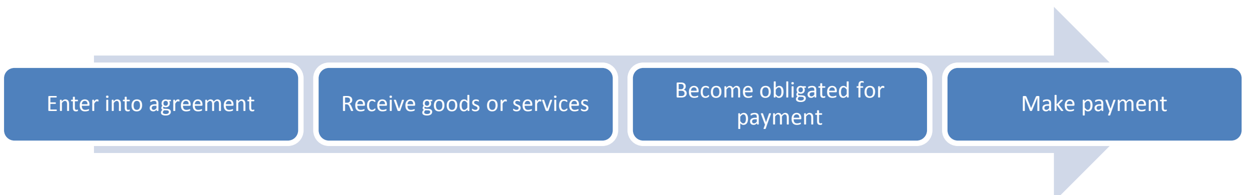
Diagram 1 Typical Sequence of Events in the Private Sector

Entity View



DR Contract asset	DR Receivable	DR Cash
CR Revenue	CR Contract asset	CR Receivable

Customer View

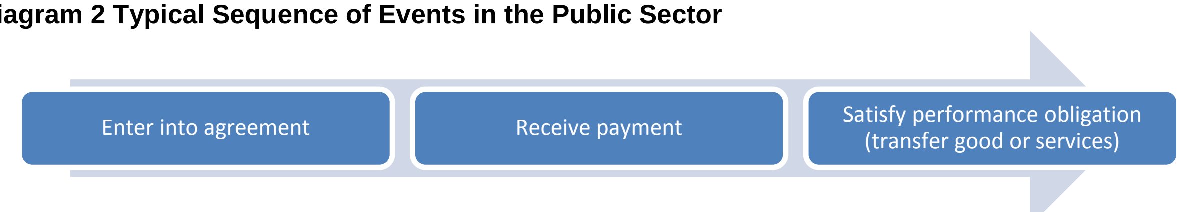


DR Expense	DR Contract liability	DR Payable
CR Contract liability	CR Payable	CR Cash

28. Although Diagram 1 shows a typical sequence of events in a private sector revenue transaction, private sector entities sometimes receive payment in advance. The presumption in IFRS 15 is that payment received in advance of satisfying a performance obligation represents a liability. This presumption consistent with the IFRS 15 requirements about enforceability and the expectation that entity will be required to deliver the agreed goods and services or refund any advance payment.

29. The sequence of events is often different in the public sector. It is common for public sector entities to be given funding in advance of providing goods and services. If an entity receives cash before it has satisfied performance obligations (and the contract is within the scope of IFRS 15) then the entity recognizes a contract liability. As it satisfies the performance obligation it reduces the contract liability and recognizes revenue. This sequence of events is shown in Diagram 2 below.

Diagram 2 Typical Sequence of Events in the Public Sector

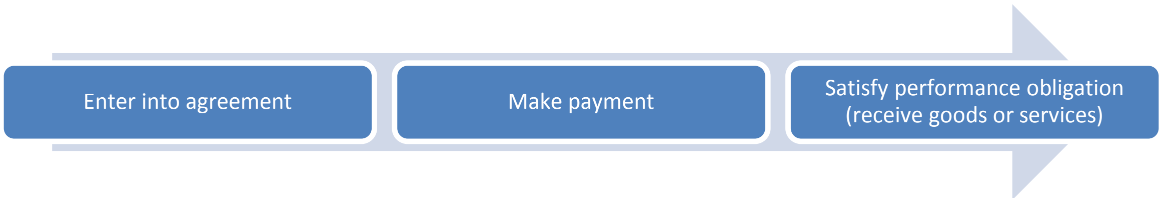


DR Cash	DR Contract liability
CR Contract liability	CR Revenue

30. Similarly, it is common for public sector entities to provide funding in advance of receiving goods and services, either directly or indirectly. If a resource provider transfers cash before the recipient has

satisfied performance obligations (and the contract is within the scope of IFRS 15) then the resource provider recognizes an asset. As the recipient satisfies the performance obligation, the resource provider reduces the asset and recognizes expense. This sequence of events is shown in Diagram 3 below.

Diagram 3



DR Asset CR Cash	DR Expense CR Asset

Contracts and IFRS 15

31. The scope of IFRS 15 is narrower than the title suggests. It does not apply to all contracts with customers. As noted above, a number of contracts with customers are dealt with in other IFRSs and excluded from the scope of IFRS 15. In addition, IFRS 15 limits the application of the revenue recognition model in that Standard.

32. An entity may apply the revenue recognition model in IFRS 15 only when there is sufficient assurance that the contract is enforceable. IFRS 15 (paragraph 9) sets out additional enforceability criteria that must be met before an entity can apply the IFRS 15 revenue recognition model to that contract. These criteria are:

    (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

    (b) The entity can identify each party's rights regarding the goods or services to be transferred;

    (c) The entity can identify the payment terms for the goods or services to be transferred;

    (d) The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

    (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

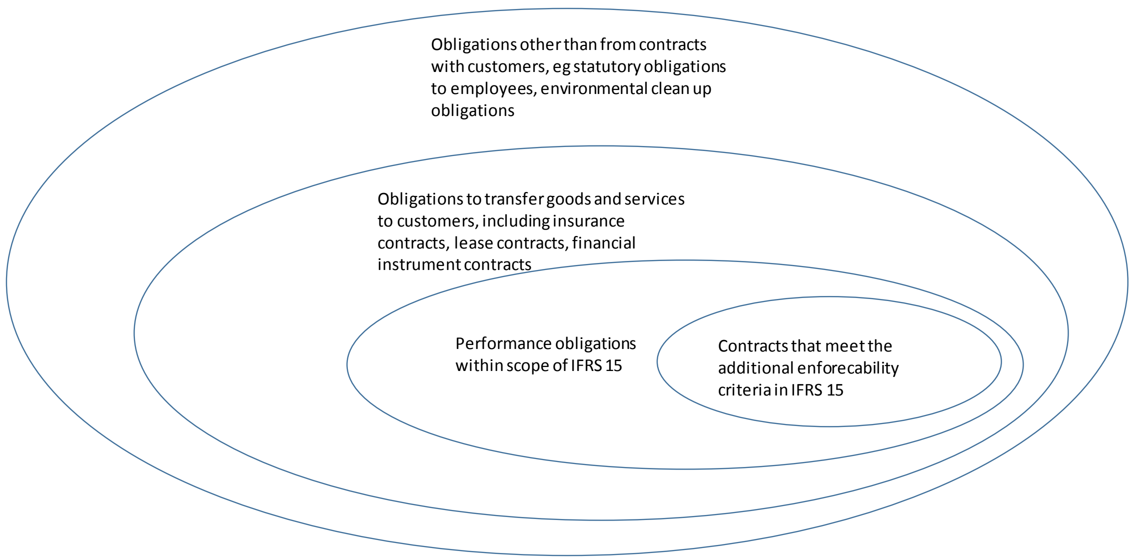
33. If contracts do not meet these criteria, then an entity cannot recognize revenue until:

    (a) It has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) The contract has been terminated and the consideration received from the customer is non-refundable. (IFRS 15 paragraph 15)

34. The IASB has limited the application of the revenue recognition model in IFRS 15 to performance obligations associated with contracts that are "sufficiently enforceable". IFRS 15 therefore deals with only a portion of all performance obligations, and more specifically, only some revenue from contracts with customers. Diagram 4 illustrates this.

Diagram 4 Obligations in an IFRSs World



35. In a commercial setting it is usual for agreements to supply goods and services to take the form of enforceable contracts, including the specification of the goods and services to be supplied and terms of payment. The rights of the parties for non-performance by the other party may be set out in the contract. The parties will also be able to rely on the legal system with the jurisdiction to enforce the terms of the contract. IFRS 15 is intended to be applied in this sort of environment.

36. The public sector environment differs from the private sector environment in a number of ways (some of the key differences are outlined in the Preface to the *Conceptual Framework*). In the public sector there may be:

(a) Less detailed specification of the goods and services to be supplied;

(b) Three parties: the resource provider who funds the goods and services, the service provider and the recipient (sometimes referred to as the consumer) of goods and services. There may also be a monitoring agency;

(c) More difficulty determining whether there is transfer of control of goods and services to a customer. Entities may be given money to carry out activities, which may benefit others but which are not clearly identified as goods and services being delivered to external parties; and

(d) More uncertainty about enforceability. This may be because the agreements do not take the form of a contract, because there is less detail in the agreement, or because the parties do not normally take legal action to enforce the agreement.

37. Being mindful of these differences, we have tried to identify the types of public sector revenue transactions that are similar to those that the recognition model in IFRS 15 was intended to be applied to. The key aspects that we have thought about are:

    (a) Specification of the goods and services;

    (b) Identification of customers;

    (c) Transfer of control; and

    (d) Enforceability.

38. There would need to be a number of modifications made to the requirements in IFRS 15 to make it suitable for the public sector, but we consider that there are a category of transactions that the recognition model in IFRS 15 could be applied to. We refer to these transactions as Category A transactions. Category A consists of:

    (a) Revenue exchange transactions such as those currently falling within the scope of IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*; and

    (b) A subset of non-exchange transactions which are non-exchange mainly because they involve the transfer of goods and services to entities or individuals other than the resource provider/payer. Those transactions are not directly in exchange because there is generally more than one party involved in the transaction.

39. The next section of this paper considers two further categories of transactions:

    (a) Category B: those revenue and non-exchange expense transactions where there is a performance obligation, but the recognition model in IFRS 15 would have to be considerably modified to be applied to those transactions. We have concerns about extending the recognition model in IFRS 15 to such transactions; and

    (b) Category C: those transactions where there is no performance obligation, or where we do not consider that it would be feasible or appropriate to apply the recognition model in IFRS 15.

Categories of Transactions – When is IFRS 15 Appropriate?

Category A (see Examples 1-3 and 12)

Exchange Transactions

40. Although the requirements in IPSAS 9 and IPSAS 11 are different from the requirements in IFRS 15, we expect that the requirements of IFRS 15 could be applied to a number of the transactions that fall within the scope of IPSAS 9 and IPSAS 11. Our thoughts on each of the main types of transactions that fall within the scope of IPSAS 9 and IPSAS 11 follow.

    (a) Rendering of services: IPSAS 9 limits the recognition of revenue from the rendering of services over time to those transactions where the entity can estimate the outcome of the transaction reliably. In order to estimate the outcome of the transaction the entity needs to have agreed matters such as the enforceable rights of the parties involved, the consideration to be exchanged and the manner and terms of settlement (IPSAS 9 paragraphs 19 and 22). These preconditions are similar to what is required to have a contract with a customer under IFRS 15.

The performance obligation is to provide services of the agreed quality and quantity at the agreed price to the agreed entities or individuals (and possibly at the agreed time or location).

(b) Sale of goods: Public sector entities can act as manufacturers or retailers. IPSAS 9 paragraph 28 specifies the requirements for the recognition of revenue from sale of goods. These requirements include the transfer of control of the goods and the ability to reliably estimate the revenue and expenses associated with the transaction. The performance obligation is to provide goods of the agreed quality and quantity at the agreed price (and possibly at the agreed time or location).

(c) Interest and dividends or similar distributions: These fall within the scope of IPSAS 9 but do not fall within the scope of IFRS 15. The IASB has moved the requirements for recognition of revenue to the financial instrument standards.

(d) Royalties and licence fees[3]: Royalties and licence fees that are within the scope of IPSAS 9 would also be expected to fall within the scope of IFRS 15, although the accounting requirements may differ. IFRS 15 contains more comprehensive guidance on revenue resulting from licences of intellectual property which requires that entities identify the various performance obligations within an agreement and consider whether they are satisfied over time or at a point in time. It also requires that an entity assess the amount of variable consideration to which it expects to be entitled. There are specific requirements for sales-based or usage-based royalties. There can be many a variety of performance obligations associated with royalties and license fees. They include obligations to make the asset available for use, to undertake activities to protect the value and revenue generating capacity of the asset and to provide related services.

(e) Construction contracts: The scope of IPSAS 11 is broader than the previous IAS 11 as it includes guidance on cost based and non-commercial contracts. We expect that it would be possible to apply the requirements of IFRS 15 to many contracts that are currently accounted for under IPSAS 11. Some contracts that currently accounted for under IPSAS 11 might not satisfy the additional enforceability criterion in IFRS 15, due to the rights and obligations not being described in sufficient detail, lack of enforceability or uncertainty about payment. Construction contracts often have multiple elements and it would be time consuming and expensive to account for each element as a separate performance obligation. IFRS 15 deals with this issue by requiring that an entity account for performance obligations in relation to *distinct* goods and services and identifying situations when promises to provide goods and services can be combined and accounted for as a single performance obligation. In the case of construction contracts the contractor would normally be responsible for integrating the various goods and services and providing the customer with a combined product and would account for the related goods and services as a distinct performance obligation.

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[3] A royalty is a payment made by one party to another that owns a particular asset (such as patents, trademarks, copyrights and computer software) for the right to ongoing use of that asset. The terms of the agreement for use of the asset are set out in a license agreement. Fees paid for intellectual property licenses may be up-front license fees, ongoing lump sum license fee payments, or rolling royalties. Royalties may be expressed as a percentage of gross or net revenues derived from the use of an asset or a fixed price per unit sold.

Transactions with Three Parties

41. We think that the IFRS 15 recognition model could be applied to some non-exchange transactions which have three parties (resource provider, service provider and recipient) but which nevertheless have clearly specified performance obligations to provide goods and services to external entities or individuals and where there is an enforceable agreement. (Examples 1, 2 and 3 in Appendix 1 look at these types of transactions). In jurisdictions that apply IPSASs there are frequently debates about whether these types of transactions should be classified as exchange or non-exchange transactions[4]. When people argue that they should be classified as non-exchange it is generally for three reasons:

    (a) There is no *direct* exchange of approximately equal value between the entity providing the goods and the party paying. Instead there is an transfer of funds between the resource provider and the service provider, and then a transfer of goods and services between the service provider and the recipient;

    (b) The agreement is not sufficiently specific to identify the rights and obligations of the parties; or

    (c) The agreement is not enforceable or would not be enforced.

42. An IFRS 15 approach does not necessarily require that there be a direct exchange between the entity providing the goods and services and the payor. It does require that there be a customer (possibly referred to as a resource provider in the public sector). Where a public sector entity is paying for a good or service to be delivered to an individual, the public sector entity could be viewed as the customer. There could be other situations where the recipient is the customer. It would depend upon which parties have entered into the agreement about the goods and services. IFRS 15 does still require that the agreement be specific enough to identify the rights and obligations and it places a lot of reliance on the performance obligation being part of an enforceable contract. Some jurisdictions do establish enforceable agreements (some in the form of contracts) regarding the delivery of goods and services to third parties.

43. To recap, we expect that the recognition model in IFRS 15 could be applied to some, but not all, transactions involving three parties.

44. At this stage it is worth noting that some entities will be required to apply IFRS 15 to transactions that involve three parties. For example, in the United Kingdom the National Health Service (NHS) Standard Contract covers the purchase of specific clinical services from various organizations. The NHS Standard Contract is used by health commissioners for all contracts for healthcare services other than primary care. The relevant authorities are still to consider whether any interpretations or adaptations are required for the public sector. It is intended that IFRS 15 will be applied to all of the contracted income (and implied contracted income) received by NHS bodies but will not apply to payments made outside of a contract such as financial allocations and support provided by the Department of Health.

Category A and the Conceptual Framework

45. Would the application of the recognition model in IFRS 15 to Category A type transactions be consistent with the IPSASB's *Conceptual Framework*?

[4] This issue was noted in a number of the outreach interviews.

46. The *Conceptual Framework*:

(a) Defines a liability as “A present obligation of the entity for an outflow of resources that results from a past event” (*Conceptual Framework*, paragraph 5.14);

(b) Explains that “A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources” (*Conceptual Framework*, paragraph 5.18); and

(c) Documents the IPSASB’s thoughts about performance obligations when it was developing the Includes some discussion in the Basis for Conclusions about (*Conceptual Framework*, paragraphs BC520 and BC5.26-27). These paragraphs are shown below.

Extracts from the Conceptual Framework

BC5.20 In the context of a present obligation, the IPSASB considered whether “conditional” and “unconditional” obligations, “stand-ready obligations” and “performance obligations” might be present obligations.

Performance Obligations

BC5.26 A performance obligation is an obligation in a contract or other binding arrangement between an entity and an external party to transfer a resource to that other party. Performance obligations are often explicitly stated in a contract or other arrangement. Not all performance obligations are explicit. For example, a statutory requirement may give rise to an implicit performance obligation of a public sector entity that is additional to the terms of an agreement or contract.

BC5.27 A performance obligation also arises when an entity enters into an arrangement whereby it receives a fee and, in return, provides an external party with access to an asset of the government. The IPSASB concluded that it is not necessary to identify a specific external party for a performance obligation to arise, but it is important to analyze such obligations in order to determine whether they include a requirement to provide an outflow of resources. Obligations that require an entity to provide access to a resource, but do not entail an outflow of resources do not give rise to liabilities. However, obligations that require an entity to forgo future resources may be liabilities. Performance obligations are often conditional obligations. Determining whether such obligations give rise to liabilities is dependent upon the terms of particular binding agreements and may vary between jurisdictions. The IPSASB concluded that the circumstances under which performance obligations give rise to liabilities should be considered at standards level.

47. In our view, application of the recognition model in IFRS 15 to Category A type transactions would be consistent with the *Conceptual Framework*. At the point that it received money in advance of satisfying performance obligations it would have a present obligation to deliver clearly specified goods and services in accordance with an enforceable agreement. The characteristics of these types of performance obligations are:

(a) There is agreement between the parties;

(b) Obligations to provide goods and services and rights to payment are clearly specified;

(c) Obligations to provide something to an entity or person external to the entity and where a transfer of control can be observed; and

(d) The agreement is enforceable.

48. The issue of whether an IFRS 15 approach could be used to account for fees in relation to use of an asset (as mentioned in the *Conceptual Framework*, paragraph BC5.27) depends on the nature of the agreement. IFRS 15 does contain guidance on accounting for licence fees. The accounting for licences depends upon whether the performance obligation is satisfied at a point in time or over time.

Category A and Modifications Required to IFRS 15

49. This Issues Paper has not attempted to identify all the modifications that would be required to IFRS 15 in order for it to be applied to Category A transactions in the public sector. Some of the issues that would need to be addressed were outlined in the June agenda papers. These include:

(a) Referring to binding agreements rather than contracts;

(b) Developing guidance on what enforceability means in the public sector;

(c) Considering which types of collaborative arrangements would fall within the scope;

(d) Explaining how uncertainties about funding are dealt with;

(e) Providing guidance on the identification of standalone selling prices; and

(f) Deciding when a transaction should be split into two components.

50. The Examples in the Appendix also highlight some of the issues that would need to be addressed. For example, in order to recognize revenue over time under IFRS 15, an entity must satisfy certain criteria. One of the criteria that can be used to justify the recognition of revenue over time is if the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. In the context of IFRS 15 the right to payment means the right to be compensated for costs incurred plus a reasonable profit margin for work completed. The criterion would not be satisfied in many public sector situations, so we would need to look at whether it should be modified or omitted.

Category B (see Examples 4, 9-11 and 16)[5]

51. The second group of transactions we want to consider are those which might give rise to a performance obligation but where the recognition model in IFRS 15 would require significant modification before it could be applied.

52. The Board's consideration of these transactions is critical because we envisage two revenue standards. We therefore need direction on which type of approach the Board considers would work best for these transactions. Although we have said that it might be possible to extend the IFRS 15 approach to these transactions, we have not recommended this. Our main concern is that the modifications required could be substantial and could affect the coherence of the model.

53. We have discussed the following transactions in this category:

(a) Capital grants; and

[5] The classification of Example 11 is debateable.

(b) Agreements where the good or service to be transferred is peripheral in relation to the total amount of work to be undertaken (for example, a research report on a large research project).

54. Board members may have identified other transactions that they think fall into this category.

Capital Grants

55. Example 4 in the Appendix deals with capital grants. As discussed in that example, there is an obligation to use the funds provided to construct an asset and the agreement may be specified in sufficient detail that it is possible to say when the entity is entitled to claim or keep the grant funds. Such agreements may also be enforceable.

56. However, they are often missing one of the key steps in the IFRS 15 revenue recognition model. If a capital grant is for the construction of an asset which will subsequently be kept by the entity that has received the capital grant, there is no transfer of control of the asset to a customer. The IPSASB could extend the scope of the IFRS 15 revenue recognition model to capital grants, but this would be a policy decision, and it would involve rewriting a key aspect of the revenue recognition model in IFRS 15. From the expense side the resource provider is giving away something of value. In that sense Example 4 can be regarded as being similar to Examples 1-3.

Research Agreements

57. Examples 9 and 10 in the Appendix deal with research grants. The revenue recognition model in IFRS 15 could be applied to some research agreements. For example, there are private sector entities that carry out research and which are paid for their work. These entities would apply the relevant private sector standards in their jurisdiction – which could be IFRS 15. They would be able to apply the recognition model in IFRS 15 if those research agreements were sufficiently specific and enforceable.

58. Public sector entities are likely to conduct a broader range of research than private sector entities, ranging from research with clear commercial application to more fundamental research. There are likely to be performance obligations in all research agreements. However, there are a number of reasons why it might be difficult to apply the IFRS 15 revenue recognition model to research agreements. These difficulties include:

(a) Enforceability: What will happen if the entity does not perform the research to the agreed specifications? If there is no requirement to repay money or undertake more work to satisfy the obligation then enforceability is in question.

(b) Transfer of control: If the only tangible output is the research report then the assessment about transfer of control would be based around the report. However, the research report might be peripheral to the rest of the project. This raises the question of whether it is appropriate to base revenue recognition around satisfaction of an obligation to produce a report.

59. In our view, agreements to undertake research could fall all the way along a spectrum – with IFRS 15 type performance obligations at one end and no performance obligation at the other end. It would be a policy decision for the IPSASB as to how far it wanted to extend the scope of the revenue recognition model in IFRS 15.

Category B and the Conceptual Framework

60. For Category A transactions we considered whether application of the recognition model in IFRS 15 to Category A type transactions would be consistent with the *Conceptual Framework*. It is much harder to answer this question for Category B transactions as the Category B transactions are missing some of the characteristics of performance obligations within the scope of IFRS 15. So, instead, we have considered what aspects of the IFRS 15 recognition model would be essential for consistency with the *Conceptual Framework*.

61. We think that enforceability is an important component of the IFRS 15 recognition model. If the performance obligations within an agreement are not likely to be enforced, then it is difficult to argue that an entity receiving funds in advance has a binding obligation, as required by the definition of a liability in the *Conceptual Framework*.

62. We think that transfer of control is a less critical component of the IFRS 15 recognition model and that it might be possible to develop proxies for the transfer of control. For example, in the case of capital grants for assets which will remain under the control of the entity creating the asset, it would be possible to argue that there is an effective transfer of benefits to the resource provider at the point that the asset is completed. In the case of research it would be possible to think of the recipient entity creating an intangible asset which then substantially remains under its control. Again, it would be possible to argue that there is an effective transfer of benefits to the resource provider at the point that the research is completed.

63. However, we do need to think carefully about whether there would be significant benefits from expanding the application of the IFRS 15 recognition model to these types of transactions, rather than applying an IPSAS 23 type approach. As noted earlier, we would be cautious about trying to extend IFRS 15 to these transactions. It could affect the coherence of the model and create issues that we have not anticipated.

64. One of the main complaints about IPSAS 23 is that it leads to upfront recognition of large amounts of revenue that are intended to be used to fund activities or operations over a number of periods. Application of the recognition model in IFRS 15 to capital grants would not solve this problem. If there was an ongoing requirement to use the asset for the purpose for which it was intended or to return the asset to the original resource provider, the entity would need to separately decide how to account for that restriction on the use of the asset. It might be addressed through disclosure of the restriction, identification of a contingent liability or, in some cases, recognition of a liability.

Category C

65. Even if the IPSASB decides to develop revenue and non-exchange expense standards based on IFRS 15, we consider that it would still need residual standards, along the lines of IPSAS 23 (or IPSAS 19 for non-exchange expenses), to deal with the majority of non-exchange transactions. This is the area where the revenue project and the non-exchange expenses project are most likely to intersect, as both the resource provider and the service provider could be public sector entities.

66. Although we are suggesting that a standard along the lines of IPSAS 23 would still be required, further work on possible improvements to that standard would be required before seeking views from constituents. In September the Board looked at some issues that have been raised in relation to IPSAS 23.

67. This section looks at some transactions where we consider that a residual revenue standard would be required.

No Performance Obligation

68. Examples 5-7 and 13-15 in the Appendix illustrate situations where there is no performance obligation. In these cases it does not make sense to try and apply the recognition model in IFRS 15. There may still be obligations to use funds in certain ways in these examples, but they are not the type of enforceable performance obligations for which IFRS 15 was designed. We consider that there is a need for a residual revenue standard such as IPSAS 23 for such transactions.

Time Restrictions

69. We have considered whether obligations to spend funds within a certain period could be accounted for using the recognition model in IFRS 15. Where the obligations are to provide goods and services within a specified time period and there is an enforceable agreement, we consider the answer is yes. In such cases the time restrictions are merely one of the conditions of the agreement. However, where there is no obligation to provide goods and services to an external party, then it is questionable whether the IFRS 15 presumption that advance payments represent a liability is appropriate.

70. There may be liabilities associated with such agreements, but they are not the type of enforceable performance obligations around which IFRS 15 was developed.

Matter(s) for Consideration

1. Does the IPSASB agree that it would appropriate to propose the recognition model in IFRS 15 to account for Category A transactions?

   The transactions we grouped in Category A were:

   (a) Exchange transactions such as those currently falling within the scope of IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*; and

   (b) A subset of non-exchange transactions – being transactions which are currently classified as non-exchange mainly because they involve the transfer of goods and services to entities or individuals other than the resource provider. That is, those transactions that have a resource provider, service provider and a funder.

2. Does the IPSASB think that it would be appropriate to propose extending the IFRS 15 recognition model to any Category B transactions? If so, which types of transactions?

3. Does the IPSASB agree that residual revenue and non-exchange expense standards are required for transactions such as Category C transactions?

Update on Application of IFRS 15 in Various Jurisdictions

71. Other jurisdictions (for example, Australia, United Kingdom and United States) are still considering the application of IFRS 15 to public sector or not-for-profit entities and the issues that might be encountered. A brief update on the state of this work and when we might be able to draw on the work of these jurisdictions is set out below.

72. As noted in the June agenda papers, Canada and South Africa have considered aspects of the approach in IFRS 15, but they are not proposing the imminent application of IFRS 15 by public sector

entities. If Board members are aware of developments in other jurisdictions we would like to hear about them.

Australia

73. The Australian Accounting Standards Board (AASB) has proposed that the Australian equivalent of IFRS 15 (AASB 15) be applied by not-for-profit entities in the private sector and the public sector, including government departments, local governments and charities. The AASB issued an exposure draft proposing some additional guidance for NFP entities applying AASB 15. The AASB also proposed to have a residual revenue standard for revenues that are not covered by other standards or AASB 15. The EDs envisaged that some transactions might include what the AASB referred to as a donation component – the donation component would be accounted for under the residual revenue standard.

74. The AASB's proposals would allow entities to apply the revenue recognition model in AASB 15 to transactions that are enforceable agreements with sufficiently specific promises. Exactly which transactions would fall within the scope of the various standards is still being discussed.

75. The AASB is currently considering feedback received on its proposals. It is hoping to issue final standards towards the end of 2016.

United Kingdom

76. IFRS 15 (possibly with some modification) will be applied by central government, local government and a range of public sector entities in the United Kingdom.

    (a) Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the UK (the Code). This Code is based on IFRS and, following due process, is published annually by the CIPFA/LASAAC Local Authority Code Board.

    (b) Government departments are required to follow the Government Financial Reporting Manual (FReM). The FReM is updated annually by Her Majesty's Treasury. It is based on IFRS, with some adaptations and interpretations appropriate to government. Changes to the FreM are subject to due process.

77. The Financial Reporting Advisory Board (FRAB) concluded that there was a need for a working group of the Relevant Authorities (including HM Treasury, Monitor, Department of Health, CIPFA, and the Department of Finance and Personnel Northern Ireland) to address the introduction of IFRS 15. In March 2015 the Relevant Authorities convened to consider the implementation of the Standard [IFRS 15] and to agree next steps.

78. At the time of writing, consultation is still underway in both the local authority and the central government sectors.

    (a) HM Treasury has established a cross departmental working group to assess the adoption issues for IFRS 15 for the public sector. Any proposed implementation guidance or public sector adaptions will be issued for comment in 2016. A paper presented to FRAB in November 2014 suggested that for many contracts in the public sector, the accounting for revenue will remain unchanged.

    (b) In an exposure draft of the 2016/17 Code CIPFA/LASACC has sought comments on whether the future adoption of IFRS 15 will have significant application issues. Initial analysis of the Standard [IFRS 15] has identified that there is unlikely to be a significant impact on local authorities due to their main sources of income being non-exchange transactions ie grants, council tax and business rates.

79. The 2014 FRAB agenda paper did identify some possible implications from adoption of IFRS 15, as shown in the following extract from the papers. These potential implications are application issues – they do not call into question the suitability of the requirements. However it is worth noting that these issues relate to the types of transactions that one would expect to fall within the scope of IFRS 15 – no extension of scope was envisaged.

Extract from FRAB November 2014 agenda paper

11. For other contracts, including long-term service contracts, there may be changes to the timing and amount of revenue recognised, depending on how entities previously accounted for these contracts. Possible areas where practice may change include:

- sales with incidental obligations (e.g. equipment sales with maintenance agreements),
- transfers of goods and services where there is no observable evidence of the stand-alone price of each of the goods and services,
- licences of intellectual property,
- situations where there is uncertainty about whether revenue should be recognised at a point in time or over time (e.g. development of a service provided over time or a good transferred on completion)
- estimates where consideration is variable, and
- situations where customers pay in advance or arrears and financing of the contract needs to be considered.

80. The health sector's views on IFRS 15 have been sought owing to the expectation that the health sector will experience the most significant impact (feedback was sought by the end of October). This is due to the nature of the internal market and the 'Standard Contract' (which forms the basis of contracts between provider trusts and commissioners). The results of this consultation will be considered towards the end of this year into 2016.

81. IFRS 15 will apply to all of the contracted income (and implied contracted income) received by NHS bodies. This will include contracts for non-patient services as well as for patient services. The majority of income for most NHS providers will come from the NHS contracts with commissioning bodies. It will not apply to payments made outside of a contract such as financial allocations and support provided by the Department of Health.

82. An initial assessment of the NHS contract and IFRS 15 has suggested:

(a) Tariff procedures covering a spell of care will be separate performance obligations. There may however be some complex spell cases with distinct elements that could involve multiple performance obligations. For block contracts the obligations may need to be split to the procedures that are subject to different measurement under the contract. However this latter point may be simplified in application by the fact that the revenue is usually recognized in a single reporting period.

(b) Healthcare is performed, and the income recognized, over time, rather than at a point in time, and the tariff system provides a clear allocation of prices to obligations.

(c) The move to expected value (i.e. recognising revenue to which the entity expects to be entitled) in IFRS 15 may affect some income calculations at year-end when penalties and sanctions are considered.

(d) There may be a case for income under IFRS 15 that relates to re-admissions to be apportioned across the original treatment and the re-admission treatment. We welcome respondents' views on this in applying the technical requirements of the standard.

(e) There will be the additional disclosures required by the standard on contract income.

United States

83. Some not-for-profit entities in the United States will be required to apply Topic 606, the FASB equivalent of IFRS 15. Currently these entities use an exchange/ non-exchange distinction to determine appropriate accounting requirements. It appears that the exchange/ non-exchange distinction will continue to be used, with Topic 606 being applied to the exchange transactions of not-for-profit organizations (for example, fee for service arrangements, membership dues, special events, tuition, grants, government contracts, and sales of goods).[6]

84. FASB staff have commented on the fact that entities will need to think about whether they fall within the scope of Topic 606. In determining whether a transaction is in the scope of the [Topic 606] revenue model, the FASB staff thinks it might be helpful for entities to evaluate whether the 5 step model practically could be applied to the transaction. For example, if an entity cannot identify promised goods or services to the customer in step 2 of the model or cannot determine if (or when) control of those promised goods or services transfers in step 5 of the model, then those facts might be indications that the transaction is not an exchange transaction with a customer.[7]

85. The FASB Not-for-Profit Advisory Committee (NAC) has discussed potential implementation issues including self-pay patient revenue, multiple pay arrangements, whether contributions should be explicitly excluded from the scope of the standard[8], the lack of guidance for government grants if the governmental entity does not meet the definition of a customer, and uncertainty as to how to account for collaborative arrangements.

86. The AICPA has established a number of Revenue Recognition Task Forces to consider revenue recognition implementation issues and develop helpful hints and illustrative examples for how to apply Topic 606. The Not-for-Profit Entities Revenue Recognition Task Force has identified several area where illustrations of the model could be helpful. The areas identified include tuition discounts, impact of the new standard on contribution revenue (if any), government grants with deliverables, government grants – best efforts, sponsorships, membership dues, royalties, and licensing[9]. Of these, government grants is likely to be the most significant issue. Work on real life examples is likely to occur towards the end of 2015 through to 2016. Although the new standard does not appear to affect the current accounting guidance for contributions or the guidance for distinguishing between contributions and exchange transactions, both the NAC and AICPA task force have identified potential implementation issues related to contributions.

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6 There is still some debate over whether grants and some government contracts are exchange transactions.

7 http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2015/March/RTRG%2026%20Contributions.pdf

8 Although Topic 606 does not specifically exclude contributions from its scope, the consensus on this issue is that contributions are not considered to be contracts with customers and are therefore not within the scope of the standard.

9 The FASB and IASB are both in the process of consulting on some clarifications regarding royalties and licenses.

Next Steps

87. If the IPSASB agrees with the recommendation in Agenda Paper 8.5 to develop Consultation Papers for the revenue and non-exchange expenses projects, then the next steps would be to begin drafting the Consultation Papers and outlining the approaches that the IPSASB has considered and the proposals for change. For example, if the IPSASB agreed to further explore a performance obligation/no performance obligation approach to the development of revenue standards more work would need to be done on the proposed modifications to IFRS 15 and any proposals to change or improve the approach in IPSAS 23.

Appendix 1: Examples

This Appendix contains an overview of the Steps in an IFRS 15 Approach and an IPSAS 23 Approach.

It also contains a number of examples. We have considered the application of both an IFRS 15 approach and an IPSAS 23 approach to each example. The examples, and our views on the category that they belong in are set out below.

Example	**Category A, B or C**
Example 1 Vaccination Grant	Category A
Example 2 Mental Health Services	Category A
Example 3 Dental Services	Category A
Example 4 Road Construction	Category B
Example 5 Low Income Transfer	Category C
Example 6 Funding of Public Sector University	Category C
Example 7 Grant With No Requirements	Category C
Example 8 Forgiveness of Loan	Not applicable – outside scope
Example 9 Research Agreement: Health	Category B
Example 10 Research Agreement: Science	Category B
Example 11 Licence Fees	Category B (possibly C)
Example 12 Fees Paid to Regulatory Bodies	Category A
Example 13 Right to Use Assets	Category C
Example 14 Services In-kind – Services from Professionals	Category C
Example 15 Services In-kind – Guaranteed by Government	Category C
Example 16 Construction Contracts Settled by Third Parties	Category B

Steps in IFRS 15 Approach

Step 1 – Identify the contract(s) with the customer	A contract is an agreement between two or more parties that creates enforceable rights and obligations. Criteria for identifying a contract (and therefore applying IFRS 15): • The parties have approved the contract • The entity can identify each party's rights to goods and services to be transferred • The entity can identify payment terms • Contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract) • Probable that will collect consideration In some cases, IFRS 15 requires an entity to combine contracts and account for them as one contract. IFRS 15 also specifies how an entity would account for contract modifications. IFRS 15, paragraphs 9-21
Step 2 – Identify the performance obligations in the contract	Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct. In determining whether a good or service is distinct, an entity considers if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer. An entity also considers whether the entity's promise to transfer the good or service is separately identifiable from other promises in the contract. IFRS 15, paragraphs 22-30
Step 3 – Determine the transaction price	The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Usually, the transaction price is a fixed amount of customer consideration. Sometimes, the transaction price includes estimates of consideration that is variable or consideration in a form other than cash. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Adjustments to the transaction price are also made for the effects of financing (if significant to the contract) and for any consideration payable to the customer. IFRS 15, paragraphs 46-72
Step 4 – Allocate the transaction price	An entity would typically allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service. If a stand-alone selling price is not observable, the entity would estimate it. Sometimes, the transaction price may include a discount or a variable amount of consideration that relates entirely to a specific part of the contract. The requirements specify when an entity should allocate the discount or variable consideration to a specific part of the contract rather than to all performance obligations in the contract. IFRS 15, paragraphs 73-90

Step 5 – Recognize revenue when a performance obligation is satisfied	An entity would recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied. IFRS 15, paragraphs 31-45

Resource Provider View:

Resource providers could evaluate contracts for the procurement of goods or services provided to either the resource provider directly or indirectly (delivered or provided to a third party, the beneficiary) using the same steps outlined above. The resource providers would therefore recognize expense when (or as) the service provider satisfies the performance obligations.

Steps in IPSAS 23 Approach (together with the Conceptual Framework) Although we have applied an IPSAS 23 approach to the examples in this Appendix, we have referred to the *Conceptual Framework* definitions and guidance as much as possible.	
Does the inflow give rise to an item that meets the definition of an asset?	An asset is a resource controlled by an entity as a result of a past event (*Conceptual Framework*, paragraph 5.6). A resource is fairly broadly defined. It includes the right to use a resource to provide services. The *Conceptual Framework* (paragraph 5.12) sets out factors to consider in deciding if the entity presently controls a resource.
Does the inflow satisfy the criteria for recognition as an asset?	IPSAS 23 criteria: Probable and FV can be measured reliably. The new recognition criteria are set out in Chapter 6 of the *Conceptual Framework*. The recognition criteria are that an item satisfies the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs (*Conceptual Framework*, paragraph 6.2).
Does the inflow result from a contribution from owners?	Ownership contributions are an inflow of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity (*Conceptual Framework*, paragraph 5.33).
Is the transaction a non-exchange transaction?	Non-exchange transactions are 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 (IPSAS 9, paragraph 11). Similar wording is used in paragraph 5 of the *Conceptual Framework*.
Has the entity satisfied all of the present obligations related to the inflow?	A liability is a present obligation of the entity for an outflow of resources that results from a past event (*Conceptual Framework*, paragraph 5.14). A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources (*Conceptual Framework*, paragraph 5.18).
Recognition	IPSAS 23 paragraphs 44 to 47 An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized. As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Example 1 Vaccination grant

Performance Obligation with No Additional Factors

	Grant from a central government to a local government health department to subsidize a portion of a vaccination program for residents of the community.
Specifications (Quantity, quality, location, timing of services)	500 vaccinations. Health industry guidelines regarding use of approved vaccines and safe storage and protocols for administering vaccines must be complied with. “Residents of the community” implies a geographic area. No time restriction on when the vaccinations must be completed.
Cost	The funding provider will pay 50 percent of the actual costs for 500 vaccinations, up to a specific amount for each vaccination. The resources to be provided are based on the actual number of vaccinations provided.
Timing of payment	Variation 1: The subsidy will be paid once 500 vaccinations are provided. Variation 2: The subsidy will be paid on a pro rata basis, based on the actual number of vaccinations provided at the end of each month.
Availability of funds	The public sector entity providing resources has authority to spend the funds.
Eligibility criteria	No specific criteria over and above the specifications set out above.

Example 1 Vaccination grant – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: ✓ Parties: • Entity: Local government health department • Customer (Resource Provider): Central government • Recipients: residents of the local community Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract✓ • The entity can identify each party’s rights to goods and services to be transferred✓ • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration✓ Contract has fixed duration? Not specified in the example Can either party terminate wholly unperformed contract without compensation? Assume No *Conclusion: assume there is an agreement that would fall within the scope of a performance obligation standard.*

Example 1 Vaccination grant – IFRS 15 approach	
Step 2 – Identify the performance obligations in the contract	In the agreement, the local government health department has promised to perform a task (the vaccinations) for the central government. The vaccinations are a distinct service and the promises in respect of the vaccinations are explicitly stated in the agreement. There are no other actual or implied promises that need to be considered. *Conclusion: it is possible to identify the performance obligations in the agreement*
Step 3 – Determine the transaction price	Assuming that the cost of each vaccination is CU10, and that the local government health department expects to perform at least 500 vaccinations it would expect to receive: CU10 x .5 x 500 = CU2,500 This is a simple example. There do not appear to be any other factors affecting the calculation of the transaction price such as variable consideration, a financing component, non-cash consideration or consideration payable back to central government.
Step 4 – Allocate the transaction price	There is a single performance obligation, so the whole transaction price of CU2500 is allocated to that obligation.
Step 5 – Recognize revenue when a performance obligation is satisfied	The local government health department would recognize revenue as it satisfies the performance obligation by performing vaccinations. The number of vaccinations performed would be an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied. IFRS 15 (paragraph 33) talks about the "customer" obtaining control of the good or service (the asset). Control refers to the ability of the entity to direct the use of, and substantially all of the remaining benefits from, an asset. Benefits are the potential cash flows (inflows or savings in outflows that can be obtained directly or indirectly from the asset). The IPSASB would need to ensure that the concept of benefits was sufficiently broad to cover the benefits that a central government would receive from another entity delivering vaccination services. The wording in IFRS 15 would seem to capture at least some of the benefits to the central government.
Resource Provider Recognition	The central government would recognize expense as the local government satisfies the performance obligation by performing vaccinations. The central government also could use the number of vaccinations performed to measure progress and determine how much expense should be recognized as the performance obligation is satisfied.
Accounting – Entity	DR Contract asset CR Revenue from performing vaccinations *Recognize revenue and contract asset as vaccinations are performed* DR Revenue receivable CR Contract asset *Recognize receivable and derecognize contract asset at the point that payment is due – ie all 500 vaccinations have been performed (variation 1) or repeat this journal at the end of each month (variation 2).*

Example 1 Vaccination grant – IFRS 15 approach	
	DR Cash CR Revenue receivable *Recognize cash and derecognize receivable when the central government pays for the vaccinations* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the receipt of cash.
Accounting – Resource Provider	DR Vaccination Grant Expense CR Contract liability *Recognize expense and contract liability as vaccinations are performed* DR Contract liability CR Payable *Recognize payable and recognize decrease in contract liability at the point that payment is due – ie all 500 vaccinations have been performed (variation 1) or repeat this journal at the end of each month (variation 2).* DR Payable CR Cash *Recognize decrease in cash and decrease in payable when the central government pays for the vaccinations* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the payment of cash.

Example 1 IFRS 15 Comments

IFRS 15 could be applied to transactions involving three parties (resource provider, service provider, recipient) as long as there are clearly specified goods and services to be delivered. To clarify the application of IFRS 15 to this type of transaction we would need to:

- Consider whether to change terminology or whether to include additional guidance explaining what the terms mean in certain situations. For example, some people might think of the recipient as the ultimate customer. But in the context of IFRS 15 the customer is the party that specifies the goods and services and pays for them.
- Modify the requirement regarding transfer of control to a customer to encompass transfer of control to a service recipient.
- Refer to binding agreements rather than contracts.
- Be aware that enforceability requires that there be clear promises. In this case the promises to deliver services are fairly clear. We might need to provide additional guidance about what would constitute enforceability in a public sector context.

What is appealing about applying IFRS 15 to this transaction is that the central government could have chosen to purchase the vaccination services from a private sector entity. If the private sector entity was applying IFRS 15 it would have to undertake the same analysis as that shown above to decide whether it could use the revenue recognition model in IFRS 15.

Example 1 Vaccination Grant – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	An asset is a resource presently controlled by the entity as a result of a past event (*Conceptual Framework*, paragraph 5.6). The *Conceptual Framework* (paragraph 5.12) sets out factors to consider in deciding if the entity presently controls a resource. The third factor "The existence of an enforceable right to service potential …" is relevant in this example. At what point does the entity have an *enforceable right*? The *Conceptual Framework* does not discuss enforceability in the context of assets but it does discuss enforceability in the context of liabilities. Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions— or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability (*Conceptual Framework*, paragraph 5.21). The local government health department would have an unconditional enforceable right (subject to the passage of time) to payment as it delivers services. The point at which this right becomes a *present* unconditional right is: • Variation 1: once all 500 vaccinations have been provided • Variation 2: at the end of each month, for the vaccinations that have been completed that month In drafting standards it would be important to think about the difference between being entitled to reimbursement of costs and being entitled to payment for work performed to date *including a profit margin*. Many agreements in the public sector are to cover costs.
Does the inflow satisfy the criteria for recognition as an asset?	The local government health department's right to receive payment for services provided meets the definition of an asset. The amount receivable can be measured by reference to the costs of vaccinations performed.
Does the inflow result from a contribution from owners?	No. The central government is not making the payments for vaccinations in its capacity as an owner, nor are the payments intended to establish or increase an interest in the net financial position of the entity.
Is the transaction a non-exchange transaction?	Yes. The local government health department is receiving value from the central government without *directly* giving approximately equal value in exchange. There are differing views in practice about classification of some transactions.
Has the entity satisfied all of the present obligations related to the inflow?	The local government health department is not receiving any payment in advance. Therefore it will recognize revenue to the extent that it has performed vaccinations and there are no present obligations related to that revenue.

Example 1 Vaccination Grant – IPSAS 23 approach	
Accounting – Entity	DR Vaccinations - Work in progress CR Revenue from performing vaccinations *Recognize revenue as vaccinations are performed* DR Revenue receivable CR Vaccinations - Work in progress Recognize receivable at the point that payment is due DR Cash CR Revenue receivable *When the central government pays for the vaccinations* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the receipt of cash.
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 1: IPSAS 23 Comments

There is no difference between an IFRS 15 approach and an IPSAS 23 approach for this transaction.

The IPSAS 23 analysis is based on a view that the local government health department presently controls a resource, and more specifically, has an enforceable right to payment as it delivers vaccinations. If you took the view that the local government's right to payment needs to be a present unconditional right, then you would argue that it should not recognize revenue until payment is due and there would be a difference between the two approaches. Judgments about the existence of enforceable rights could be influenced by other factors such as customary practices not to enforce legal rights.

Example 2 Mental health services

Performance Obligation with Additional Factor (Eligibility Requirement)

	Grant from a central government to a local government to provide mental health services at a prison.
Specifications (Quantity, quality, location, timing of services)	No minimum quantity specified. Provide as many services as possible – up to the maximum amount of the grant. The service provider must be an accredited mental health provider and comply with industry codes of ethics. At a specific prison. No specific timing for services.
Cost	The funding provider will pay for 25 percent of the costs to provide services, up to a maximum amount.
Timing of payment	Variation 1: the grant will be paid once the service provider has provided all the services up to the maximum amount of the grant. Variation 2: the subsidy will be paid on a pro rata basis, based on the actual services provided at the end of each month.
Availability of funds	Authorization of funding is expected.

	Grant from a central government to a local government to provide mental health services at a prison.
Eligibility criteria	The service provider must be accredited with a specific accrediting agency. Variation 1: The service provider must be accredited at the beginning of the agreement. Variation 2: The service provider must be accredited throughout the duration of the agreement.

Example 2 Mental Health Services – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Assumption: • Assume that the accreditation requirements are a proxy for minimum quality standards Definition of a contract: Assume there is a grant agreement ✓ Parties: • Entity: Local government • Customer: Central government Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract✓ • The entity can identify each party’s rights to goods and services to be transferred✓ (accreditation requirements would play a role here) • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration. In order to answer “yes” to this criterion, the local government would have to expect that it will provide the mental health services, that the funding will be authorized and that it will have enough accredited people to provide the services. ✓ Contract has fixed duration? No Can either party terminate wholly unperformed contract without compensation? Assume No *Conclusion: assume there is an agreement that would fall within the scope of a performance obligation standard.*
Step 2 – Identify the performance obligations in the contract	Assumption: • The promises in respect of the mental health services are explicitly stated in a grant agreement. In the agreement, the local government has promised to perform a task (provide the mental health services) for the central government. The mental health services are a distinct service. Although it is assumed that the promises are set out in a grant agreement, there may be additional promises implied by the local government’s customary way of operating, its published policies, or specific statements that it made at the time of entering into the agreement. The accreditation requirements are one of the terms of the contract. *Conclusion: it is possible to identify the performance obligations in the agreement*

Example 2 Mental Health Services – IFRS 15 approach	
Step 3 – Determine the transaction price	Assumptions: • The maximum amount of the grant is CU10,000. • The local government expects to spend CU40,000 providing the services. • The unit of account is the contract as a whole. The local government would expect to receive: CU40,000 x 0.25 = CU10,000 There are no other factors affecting the calculation of the transaction price.
Step 4 – Allocate the transaction price	Assumptions: • The mental health services are provided directly to individual prisoners. There are no group sessions. • The type of service offered (in terms of amount of time and qualifications of provider) is the same for all prisoners. • There is a single performance obligation, so the whole (expected) transaction price of CU10,000 is allocated to that obligation.
Step 5 – Recognize revenue when a performance obligation is satisfied	The local government would recognize revenue as it satisfies the performance obligation by providing the mental health services. For performance obligations satisfied over time, an entity has to consider the terms of the contract when evaluating whether it has an enforceable right to payment for performance completed to date (IFRS 15, paragraph 37). The accreditation requirements are one of the terms of the agreement. Under variation 1 (that the provider be accredited at the beginning of the agreement) the local government would know, at the beginning, that it had met that term. Under variation 2 (that the provider be accredited throughout the duration of the agreement) it is possible that the local government might breach this term at some point after the beginning of the agreement. What happens then would depend on what consequences the agreement sets out for breach of this condition. There might be financial penalties. For example, the local government might not be able to enforce payment for any services provided by an unaccredited person.
Resource Provider Recognition	The central government would recognize expense as the local government satisfies the performance obligation by providing the mental health services. The central government also would know if the local government had met the accreditation requirement, either at the beginning of the agreement or throughout the agreement.

Example 2 Mental Health Services – IFRS 15 approach	
Accounting – Entity	DR Contract asset CR Revenue from providing mental health services *Recognize revenue and contract asset as mental health services are provided* DR Revenue receivable CR Contract asset *Recognize receivable and derecognize contract asset at the point that payment is due* DR Cash CR Revenue receivable *Recognize cash and derecognize receivable when the central government pays for the mental health services* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the receipt of cash.
Accounting – Resource Provider	DR Expense CR Contract liability *Recognize expense and contract liability as mental health services are provided by the local government* DR Contract liability CR Payable *Recognize payable and recognize decrease in contract liability at the point that payment is due* DR Payable CR Cash *Recognize decrease in cash and recognize decrease in payable when the central government pays for the mental health services* The only difference between variation 1 (single payment) and variation 2 (monthly payments) is the timing of the payment of cash.

Example 2 IFRS 15 Comments

See Example 1 Comments.

The main issue would be making it clear that the standard could be applied to transactions involving three parties (resource provider, service provider, recipient).

Example 2 Mental Health Services – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Assumptions: • The maximum amount of the grant is CU10,000 • The local government expects to spend CU40,000 providing the services • The accreditation requirements will be met.

Example 2 Mental Health Services – IPSAS 23 approach	
	The local government will have an unconditional (subject to the passage of time) enforceable right to payment as it delivers services. The point at which this right becomes a *present* unconditional right will be: • Variation 1: once it has provided services worth CU40,000 • Variation 2: at the end of each month, for 25% of the amount spent providing mental health services that month (up to CU40,000) The accreditation requirements are one of the terms of the agreement. Under variation 1 (that the provider be accredited at the beginning of the agreement) the local government would know, at the beginning, that it had met that term. Under variation 2 (that the provider be accredited throughout the duration of the agreement) it is possible that the local government might breach this term at some point after the beginning of the agreement. What happens then will depend on what consequences the agreement sets out for breach of this condition. If the local government cannot enforce payment for any services provided by an unaccredited person then it would not have an asset (revenue receivable) in respect of such services.
Does the inflow satisfy the criteria for recognition as an asset?	The local government's right to receive payment for mental health services provided meets the definition of an asset. The amount receivable can be measured by reference to the cost of services provided.
Does the inflow result from a contribution from owners?	No. The central government is not making the payments for mental health services in its capacity as an owner. Nor are the payments intended to establish or increase an interest in the net financial position of the entity.
Is the transaction a non-exchange transaction?	Yes. The local government is receiving value from the central government without *directly* giving approximately equal value in exchange.
Has the entity satisfied all of the present obligations related to the inflow?	The local government is not receiving any payment in advance. Therefore it will recognize revenue to the extent that it has provided mental health services to prisoners and there are no present obligations in respect of that revenue.

<table>
<tr><th colspan="2">Example 2 Mental Health Services – IPSAS 23 approach</th></tr>
<tr><td>Accounting – Entity</td><td>DR Mental health services – Work in progress
CR Revenue from providing mental health services
Recognize revenue and work in progress as services are provided

DR Revenue receivable
CR Mental health services – Work in progress
Recognize receivable and derecognize work in progress at the point that payment is due

DR Cash
CR Revenue receivable
Recognize cash and derecognize receivable when the central government pays for the services
The only difference between Variation 1 (single payment) and Variation 2 (monthly payments) is the timing of the receipt of cash.</td></tr>
<tr><td>Accounting – Resource Provider</td><td>Refer to Agenda Item 8.3.</td></tr>
</table>

Example 2: IPSAS 23 Comments

There is no difference between an IFRS 15 approach and an IPSAS 23 approach for this transaction.

See also Example 1 Comments.

Example 3 Dental services

Performance Obligation with Additional Factor (Timing Restriction)

	Grant from a central government to a local government health department to provide dental services to low-income families.
Specifications (Quantity, quality, location, timing of services)	Quantity not specified. Industry guidelines are expected to be followed. Location not specified. The dental services are to be provided from 1 July onwards, which is the beginning of the recipient's fiscal year.
Cost	The funding provider will pay for 50 percent of the costs to provide services, up to a maximum amount.
Timing of payment (or return of payment)	The funding provider transfers the expected amount of the grant to the service provider as soon as the grant agreement is signed, on 15 June. The funding provider can demand a full refund if the resources are spent before 1 July or a partial refund (on a pro rata basis) at any time up until the dental services have been provided. Variation: Payment is made on 1 July (the beginning of the financial year). There is no return obligation if the funds are spent by 30 June (the end of the year).
Availability of funds	The resource provider has access to authorized funds.

Example 3 Dental Services – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Assumptions: • There is a grant agreement. • The grant agreement contains a description of types of services that fall within the agreement and who qualifies for free or subsidized services. Definition of a contract: Assume there is a grant agreement ✓ Parties: • Entity: Local government health department • Customer: Central government Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract✓ • The entity can identify each party's rights to goods and services to be transferred. This is uncertain in this example. We could assume that the grant agreement contains a description of types of services that fall within the agreement and who qualifies for free or subsidized services✓ [*there are more uncertainties in this agreement*] • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration. In order to answer "yes" to this criterion, the local government health department would have to expect that it will provide the dental services and that the central government

Example 3 Dental Services – IFRS 15 approach	
	will not require repayment of the grant for a reason other than non-performance [*this is another uncertainty that could put this agreement outside the scope of IFRS 15]*. The funding is already authorized. ✓ Contract has fixed duration? No Although the central government can demand a full refund if the local government health department spends any of the money before 1 July, this is not a wholly unperformed contract. The central government has paid the local government health department. Therefore the agreement is partially performed. *Conclusion: assume there is an agreement that would fall within the scope of a performance obligation standard.* If the criteria in IFRS 15.9 were not satisfied, then the local government health department would look to IFRS 15.15 and 16. It would recognize the amount received in advance as a liability (until it fell within the scope of IFRS 15). IFRS 15 would not permit the local government health department to recognize the advance payment as revenue because the agreement has not been terminated and it still has obligations to transfer goods or services.
Step 2 – Identify the performance obligations in the contract	Assumption: • The promises in respect of the dental services are explicitly stated in a grant agreement. In the agreement, the local government health department has promised to perform a task (provide the dental services) for the central government. The dental services are a distinct service. Although it is assumed that the promises are set out in a grant agreement, there may be additional promises implied by the local government health department's customary way of operating, its published policies, or specific statements that it made at the time of entering into the agreement. *Conclusion: it is possible to identify the performance obligations in the agreement*
Step 3 – Determine the transaction price	Assumptions: • The maximum amount of the grant is CU10,000. • The local government health department expects to spend CU20,000 providing the services. The local government health department would expect to receive: CU20,000 x .5 = CU10,000
Step 4 – Allocate the transaction price	Assumptions: • There are a limited range of dental services offered. • The average cost of these services is known. • Records of services delivered will be kept. In the absence of information on the expected breakdown of services it makes sense to treat this as a single performance obligation. The whole (expected) transaction price of CU10,000 would be allocated to that obligation.
Step 5 – Recognize revenue when a	The local government health department would recognize revenue as it satisfies the performance obligation by providing the dental services.

Example 3 Dental Services – IFRS 15 approach	
performance obligation is satisfied	For performance obligations satisfied over time, an entity has to consider the terms of the contract when evaluating whether it has an enforceable right to payment for performance completed to date (IFRS 15, paragraph 37). It is expected that the requirement to follow industry guidelines will be satisfied. The local government health department does not intend to spend any of the grant money before 1 July.
Resource Provider Recognition	The central government would recognize expense as the local government health department satisfies the performance obligation by providing the dental services. Payments made before 1 July would not be an expense for the central government.
Accounting – Entity	DR Cash CU10,000 CR Contract liability (Revenue in advance) CU10,000 *15 June: on receipt of the grant* DR Contract liability (Revenue in advance) CR Revenue from providing dental services *Throughout year: As dental services are provided – up to value of CU10,000*
Accounting – Resource Provider	DR Prepaid asset CU10,000 CR Cash CU10,000 *15 June: on payment of funds* DR Expense CR Prepaid asset *Throughout year: As dental services are provided – up to value of CU10,000*

Example 3 IFRS 15 Comments

Variation: If the central government paid the grant money on 1 July and did not require a refund if all grant money was spent by the end of the year, it would not make much difference to the above analysis.

Example 3 has similar issues to Example 1 (for example, there are three parties, there is an agreement rather than a contract, and we would need to consider whether agreement is enforceable or likely to be enforced).

Other issues that we would need to consider include:

- Scope: It was questionable whether this example would fall within the scope of IFRS 15 at the beginning of the agreement. As the local government health department delivered the dental services and became entitled to portions of the grant revenue, those portions would fall within the scope of IFRS 15. We will need to think about what happens to transactions that don't fall within the scope of IFRS 15 immediately, but which could as time progresses. We would not want them to be subject to different accounting requirements in another standard.
- With the IFRS 15 approach the recognition of revenue is less affected by timing of payment. With IPSAS 23 the timing of payment means that we are looking at different assets depending upon when payment is made. In the previous examples where cash was paid once services had been delivered we were analysing the right to payment. In this example the cash was paid up front so we were

looking at whether the entity has control over the cash received (and any associated liabilities). This meant that the analysis of revenue was tied to the analysis of the liability.

In Example 3 a central government is paying a local government health department to provide dental services to low income families. Alternatively, the central government could choose to purchase those services from a private sector entity. The IFRS 15 analysis could also apply to a private sector entity. However, it is less likely that a government would pay a private sector supplier the entire amount of the grant at the beginning. One would also expect more detailed specification of the number and type of services to be delivered and active monitoring (by the central government) of what services had been delivered and how much money was left. In summary, one would expect more detailed specification of the performance obligation in a private sector contract.

Example 3 Dental Services – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Assumptions: • The expected amount of the grant is CU10,000, and this is the amount transferred to the local government health department on 15 June. The cash received by the local government health department is an asset because: • It is a resource. • It is presently controlled by the entity (from 1 July onwards). • There was a past event (the payment by the central government). In considering whether the local government health department presently controls the cash, the indicators in the *Conceptual Framework* (paragraph 5.12) are useful. The cash received wouldn't meet all of these indicators, but the local government health department would have access to the cash and the ability to deny or restrict access to the cash from 1 July.
Does the inflow satisfy the criteria for recognition as an asset?	The cash satisfies the criteria for recognition as an asset. It meets the definition and it can be measured.
Does the inflow result from a contribution from owners?	No. The central government is not making the payments for dental services in its capacity as an owner. Nor are the payments intended to establish or increase an interest in the net financial position of the entity.
Is the transaction a non-exchange transaction?	Yes. The local government is receiving value from the central government without *directly* giving approximately equal value in exchange. Note that there can be differing views in practice.
Has the entity satisfied all of the present obligations related to the inflow?	Assumption: • The agreement becomes binding from 15 June. The central government can demand a partial refund at any time until the dental services have been provided. Applying the guidance in IPSAS 23, the local government health department would have a present obligation for the portion of the cash that related to services still to be delivered. There is a return condition under IPSAS 23. Applying the guidance on liabilities in the *Conceptual Framework*, one would probably argue that there is a legal obligation for the local government health department to repay any unused portion of the grant on demand.

Example 3 Dental Services – IPSAS 23 approach	
Accounting – Entity	DR Cash CU10,000 CR Revenue in advance CU10,000 *15 June: When the central government pays for the services* DR Revenue in advance CR Revenue from providing dental services *Throughout year: As dental services are provided – up to value of CU10,000*
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 3: IPSAS 23 Comments

There is no difference between an IFRS 15 approach and an IPSAS 23 approach for this transaction.

Example 4 Road Construction

Performance Obligation with Additional Factor (Appropriation)

	Central government reimburses subnational government for the cost of constructing roads.
Specifications	To be specified in each approved project.
Cost	Expected cost and maximum amount to be reimbursed to be specified in each approved project.
Timing of payment	Legislation specifies that payment will be made when the project is complete, subject to authorized funds being available.
Availability of funds	Legislation requires an annual appropriation to cover the expected costs. The appropriation becomes effective at the beginning of the fiscal year. The resources for the program are provided by a petrol tax. In the past there has been a history of the petrol taxes collected not being sufficient to cover the construction projects that have been approved. Appropriation approved 1 June. Effective date of appropriation 1 July. The appropriation can be changed or revoked at any time prior to 1 July.

Example 4 Road Construction – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Assumptions: • Each approved project represents an agreement. Definition of a contract: Assume each approved project represents an agreement ✓ Parties: • Entity: Subnational government • Customer: Central government Identifying the contract (to check whether it is within the scope of the Standard):

Example 4 Road Construction – IFRS 15 approach	
	• The parties have approved the contract (each approved project)✓ • The entity can identify each party's rights to goods and services to be transferred. The rights of the parties are set out partly in the approved projects (which will specify method of construction, location etc) and partly in other documents or agreements ✓ • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration. Not sure. In order to answer "yes" to this criterion, the subnational government would have to expect that there would be sufficient petrol taxes to cover the project(s). *This is not certain*. Contract has fixed duration? Yes *Conclusion:* *This example has a number of different aspects that may mean the example does not fall within the scope of the Standard.* There would be no contract in place until after 1 July – because the appropriation can be changed or revoked any time between 1 June and 1 July. [*In this period the contract should be "wholly unperformed". It is possible that the subnational government might have done some work on the road prior to 1 July, but the cost of that work would not be covered by any agreement*] The subnational government would have to decide how to deal with the uncertainty regarding the amount of petrol taxes. • It could argue that there are contract(s) within the scope of the Standard up to the amount of petrol taxes that it expects to be collected. • Or, it could decide that there is so much uncertainty that there is no contract within the scope of the Standard. It is not clear whether the government is promising the money to the subnational government in return for satisfaction of a road being built, or whether it is refunding some of the sub-national's governments operating costs. If the subnational government was planning to construct the roads anyway and the appropriation is merely reimbursing them after the event for money spent then there is not a performance obligation under IFRS 15. In order to consider the application of the revenue recognition model in IFRS 15 to be appropriate, the agreement would have to be made in advance, for work yet to be done. Even then there would be uncertainty about the likelihood of receiving the funding.
Step 2 – Identify the performance obligations in the contract	In the agreement, the subnational government has promised to perform a task (completed road project) for the central government. Each approved road project is likely to be distinct. The subnational government is likely to be providing a significant integration service and the goods and services within the project agreement are likely to be highly dependent on or highly integrated with other goods and services. *Conclusion: it is possible to identify the performance obligations in the agreement and they are likely to be at the contract level*
Step 3 – Determine the transaction price	Assumptions (for one project): • The expected cost is CU100,000.

Example 4 Road Construction – IFRS 15 approach	
	• The maximum amount is CU105,000. • The subnational government expects that it will collect the consideration for this particular project. The transaction price is the expected amount of CU100,000. The transaction price might be affected by performance bonuses and penalties. The central government might have agreed to reimburse the subnational government for performance bonuses paid to its contractors. To estimate the total contract variable price the subnational government would use either the expected value or the most likely amount, whichever better predicts the amount to which it expects to be entitled. There is guidance in IFRS 15 on when it is appropriate to include variable consideration. When there is too much uncertainty it is not included.
Step 4 – Allocate the transaction price	If it is a single performance obligation, the whole (expected) transaction price of CU100,000 would be allocated to that obligation.
Step 5 – Recognize revenue when a performance obligation is satisfied	Assumptions: • No contract modifications. • Not a loss making contract. The subnational government will need to make a decision about whether to recognize revenue over time (as the road is constructed) or at a point in time. This is likely to be close to completion or on completion. The IFRS 15 criteria for recognition of revenue are based on transferring control of the asset to the customer ie transferring the road to the central government. However, the subnational government is not going to transfer control of the roads. Performance obligations to provide construction services will generally be satisfied over time. However, this is not automatic and each contract will need to be assessed against the criteria. However, these criteria don't work if the subnational government is not going to transfer control of the asset and you're not transferring control of the asset. If the subnational government were going to transfer control of the roads, it could use an input method or an output method to measure progress. • Input method: contract costs incurred to date as a percentage of total forecast costs (exclude unexpected amounts of wasted material, labor etc) • Output method: surveys of work completed to date.
Resource Provider Recognition	The resource provider would face similar decisions regarding recognition over time or at a point in time. The effects of the appropriation also would need to be considered, including timing of the approval. Jurisdictional differences related to the appropriation process also may affect the recognition by the central government. The satisfaction of the performance obligations alone may not be sufficient to determine recognition.

Example 4 Road Construction – IFRS 15 approach			
Accounting – Entity	*These journals only make sense if the subnational government has some certainty that it is going to get the revenue. This example lacks that certainty.*		
	DR Contract Asset		
	CR Road Revenue		
	Throughout year: As road is constructed.		
	DR Cash	CU100,000	
	CR Contract Asset		CU100,000
	Recognize reimbursements as they are received.		

Example 4: IFRS 15 Approach

There is so much uncertainty about this example that it is unlikely to fall within the scope of IFRS 15.

IFRS 15 would need to be modified if we wanted to apply the revenue recognition model in IFRS 15 to capital grants. There is an obligation to do something (build the asset), but if the entity keeps the asset, then the guidance in the standard about transferring control (see especially the criteria for recognizing revenue over time in IFRS 15 paragraphs 31-37) does not work. If we want capital grants to fall within the performance obligation standard we would need to rewrite the requirements for recognition of revenue over time. We might need to explore the idea of what benefits the central government gets from the road and when it controls those benefits.

In the public sector it is common for entities to receive funding for the construction of assets which is not tied to formal ownership instruments and which is not intended to lead to increases in net assets/equity. This does not happen very often in the for-profit sector.

We will need to think about distinguishing between “goods and services” and payments intended to support the ongoing activities of an entity. Example 4 is getting close to supporting ongoing activities.

Example 4: Road Construction – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Unlikely. The subnational government does not presently control a resource until it receives the funds. However, some may argue that once the appropriation is approved and effective, the subnational government does control a resource as or when the construction project is completed.
Does the inflow satisfy the criteria for recognition as an asset?	No – the future inflows do not satisfy the definition of an asset. Perhaps a portion of the funding is certain.
Does the inflow result from a contribution from owners?	No evidence that it is intended to be a contribution from owners.
Is the transaction a non-exchange transaction?	Yes. Although the central government is receiving some benefits from the roads, it is not obtaining control over the roads and is not receiving approximately equal value in return.

Example 4: Road Construction – IPSAS 23 approach	
Has the entity satisfied all of the present obligations related to the inflow?	Yes. The subnational government is paid only after it has incurred costs.
Accounting – Entity	DR Cash CU100,000 CR Road Revenue CU100,000 *Recognize reimbursements as they are received.*
Accounting – Resource Provider	Refer to Agenda Item 8.3

Example 4: IPSAS 23 Comments

Although we have shown different journal entries under the two approaches, the uncertainty associated with the future inflows means that the IFRS 15 journals shown above are probably not appropriate. It is more likely that the transaction would be accounted for similarly regardless of which standard was applied.

The effects of the timing of the project completion and the effective date of the appropriation also should be considered.

Example 5 Low Income Transfer

No Performance Obligation with Additional Factor (Eligibility Requirement)

	Central government provides funding to local jurisdiction based on the average income of the residents in the jurisdiction.
Specifications	Not applicable
Cost	CU100,000
Timing of payment	At the end of each quarter for the preceding quarter.
Availability of funds	Authorized funds are available.
Eligibility requirements	Variation 1: Residents of the local jurisdiction must have an average income under the specified level as at 1 July. Variation 2: Residents of the local jurisdiction must have an average income under the specified level as at the end of each quarter.

Example 5 Low Income Transfer – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: No. There is no evidence that either the local jurisdiction or the central government has enforceable rights and obligations. Definition of a customer: No. The central government has not contracted with the local jurisdiction to transfer goods and services. There is no contract within the scope of IFRS 15. The requirements in IFRS 15 do not work in this context because the funding was not provided in return for specific goods and services.
Step 2 – Identify the performance obligations in the contract	Not applicable
Step 3 – Determine the transaction price	Not applicable
Step 4 – Allocate the transaction price	Not applicable
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable. When revenue received in advance from a customer does not meet the requirements of IFRS 15 paragraph 9 then paragraphs 15 and 16 require that the entity recognize a liability (unless certain conditions are met). These conditions go more to the heart of the definition of an asset and a liability. They look at whether the entity has any other obligations and whether it can effectively keep the money. This is similar to an IPSAS 23 approach.
Accounting	Not applicable – but if you applied IFRS 15 (paragraphs 15 and 16) the journals would be DR Cash CU100,000 Cr Revenue from transfer CU100,000 *When cash received at the end of each quarter*

Example 5: IFRS 15 Comments

The guidance in IFRS 15 is not applicable for this example as the local jurisdiction does not have an obligation to provide goods and services in return for the transfer.

Example 5 Low Income Transfer – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	In this example, the question is *at what point* is there an item that meets the definition of an asset? For each eligibility variation, we will assess this as at: • 1 July; and • The end of each quarter. Variation 1 Assume that the average income of the residents of the local jurisdiction is under the specified level on 1 July. As at 1 July the local jurisdiction meets the eligibility criteria to be entitled to four payments of CU100,000 throughout the year. *Is there a resource?* As at 1 July the resource is the local jurisdiction's right to future cash payments. *Is there a past event?* Yes, meeting the eligibility criteria as at 1 July is the past event. *Is there present control?* The entity does not control the cash at this point but this does not matter because the cash is not the resource. The resource is the right to receive the cash. Using the indicators in the *Conceptual Framework* paragraph 5.12 the most relevant one is the existence of an enforceable right. The question as to whether the local jurisdiction has an enforceable right to the future transfer as at 1 July might be a question of fact that has to be addressed in each jurisdiction. As at the end of each quarter the local jurisdiction will have control of the cash (assuming that it has received payment) or an enforceable right to payment. Variation 2 Assume that the average income of the residents of the local jurisdiction is under the specified level at the end of each quarter. As at 1 July: • The local jurisdiction does not have a right to future cash payments; and • There has not been a past event. As at the end of each quarter the local jurisdiction will have control of the cash (assuming that it has received payment, or an enforceable right to payment. Meeting the eligibility criteria at the end of the quarter is the past event. *Conclusion:* *Under both variations there is an asset at the end of each quarter.* *Under variation 1 there might also be an asset as at 1 July if the local jurisdiction has an enforceable right.*

Example 5 Low Income Transfer – IPSAS 23 approach	
Does the inflow satisfy the criteria for recognition as an asset?	Yes. In all cases, if the definition of an asset is met the amount is measurable.
Does the inflow result from a contribution from owners?	No. There is no evidence that the central government controls the local jurisdiction. Even if it does control the local jurisdiction, there is no evidence that the central government is intending to establish or increase an interest in the net financial position of the local jurisdiction.
Is the transaction a non-exchange transaction?	Yes. The local jurisdiction is receiving value from the central government without directly providing goods or services in exchange.
Has the entity satisfied all of the present obligations related to the inflow?	The local jurisdiction has no present obligations in relation to the funding.
Accounting – Entity	Under variation 1, if the entity has an enforceable right as at 1 July DR Accrued Revenue CU400,000 CR Revenue from Transfers CU400,000 *1 July: When the local jurisdiction meets the eligibility criteria* DR Cash CU100,000 CR Accrued Revenue CU100,000 *At the end of each quarter* Under variation 2 (and variation 1 if there is no enforceable right as at 1 July) DR Cash CU100,000 CR Revenue from Transfers CU100,000 *At the end of each quarter*
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 5: IPSAS 23 Comments

There continues to be a need for a residual revenue standard.

Example 6: Funding of Public Sector University

No Performance Obligation with Additional Factor (Timing Restriction)

	Central government agrees to provide general funding to a public sector university.
Specifications	Not applicable
Cost	CU100,000 per annum
Timing of payment	Five payments of CU20,000 each year, for two years. Delayed payment or non-payment could occur due to central government overspending in other areas. Variation: all payments are received 12 months after they are expected.
Availability of funds	An annual appropriation is required. Appropriations are approved on 1 June and effective from 1 July.
Eligibility requirements	Not applicable.

Example 6 Funding of Public Sector University– IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: No. There is no evidence that either the public sector university or the central government has enforceable rights and obligations. Although it is highly likely that the University will be expected to use the funds in a way that supports the central government objectives, there are no formal requirements about how the money is to be spent, no monitoring of how the money is used, and no consequences if the funds are used in a different way to what the government hopes. Definition of a customer: No. The central government has not contracted with the University to provide goods and services. There is no contract within the scope of IFRS 15. The requirements in IFRS 15 do not work in this context because the funding was not provided in return for specific goods and services. Even if there were enforceable rights and obligations to transfer goods and services, there would still be questions (about whether the funding fell within the scope of IFRS 15) because central government overspending in other areas could lead to non-payment. Variation: The above comments also apply to the variation.
Step 2 – Identify the performance obligations in the contract	Not applicable
Step 3 – Determine the transaction price	Not applicable
Step 4 – Allocate the transaction price	Not applicable
Step 5 – Recognize revenue when a	Not applicable.

Example 6 Funding of Public Sector University– IFRS 15 approach	
performance obligation is satisfied	
Accounting – Entity	IFRS 15 accounting is not appropriate. In the absence of an IPSAS 23 type standard entities would refer to the hierarchy in IPSAS 3. The University would have to decide the point at which it obtains control of an asset. This is probably as payment is received.
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 6: IFRS 15 Comments

The guidance in IFRS 15 is not applicable for this example as the University does not have specific obligations to provide goods and services in return for the funding.

In Example 6 a central government is providing funding to a public sector university. There could also be situations where a central government provides funding to a private sector university. The conclusion would be the same – that IFRS 15 is not applicable.

Example 6 Funding of Public Sector University – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Consider whether there is an asset as at: • 1 June; • 1 July; and • When each payment of CU20,000 is expected. As at 1 June, although the appropriation has been approved, the University does not presently control the right to future funding because (i) the appropriation is not yet effective; (ii) the government might decide it does not have sufficient funds; and (iii) the University has no enforceable rights to the funding. As at 1 July the University does not presently control the right to future funding because (i) the government might decide it does not have sufficient funds; and (ii) the University has no enforceable rights to the funding. Even when each payment is expected the University still does not have enforceable rights. The University does not presently control a resource until it receives the cash. Variation: The analysis would be the same under the variation.
Does the inflow satisfy the criteria for recognition as an asset?	At the point that the University receives the cash the inflow meets the definition of an asset and it is measureable.
Does the inflow result from a contribution from owners?	No. There is no evidence in this example that the central government controls the University. Even if it does control the University, there is no evidence that the central government is intending to establish or increase an interest in the net financial position of the University.
Is the transaction a non-exchange transaction?	Yes. The local jurisdiction is receiving value from the central government without *directly* providing goods or services in exchange. There are differing views in practice.

Example 6 Funding of Public Sector University – IPSAS 23 approach	
Has the entity satisfied all of the present obligations related to the inflow?	The university has no present obligations in relation to the funding. The central government may have expectations about how the funding will be used. However, there is no evidence that (i) any requirements have been specified; (ii) the central government will minor the use of the funds; or (iii) there are any consequences for not using the funds in the way the central government hoped.
Accounting	DR Cash CU20,000 CR Revenue from Transfers CU20,000 *As payment is received*

Example 6: IPSAS 23 Comments

There is a need for a residual revenue standard such as IPSAS 23.

Situations where public sector entities receive funds in advance or in arrears can lead to large fluctuations in reported performance, despite fairly constant levels of activity within the public sector entity.

Example 7	**No Performance Obligation with No Additional Factors** **Grant with no requirements** Public sector entity transfers funds to another public sector entity for immediate use in any manner by the recipient.
Specifications	Not applicable
Cost	CU100,000
Timing of payment	Payable at the beginning of the year.
Availability of funds	Assume that amount transferred was appropriately authorized by an appropriation.
Eligibility requirements	Not applicable.

Example 7 Grant with no requirements – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: No. There is no evidence that either public sector entity (the transferor or the recipient) has enforceable rights and obligations. Definition of a customer: No. The transferor has not contracted with the recipient for the transfer goods and services. There is no contract within the scope of IFRS 15. The requirements in IFRS 15 do not work in this context because the funding was not provided in return for specific goods and services.
Step 2 – Identify the performance obligations in the contract	Not applicable
Step 3 – Determine the transaction price	Not applicable
Step 4 – Allocate the transaction price	Not applicable
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable. When revenue received in advance from a customer does not meet the requirements of IFRS 15 paragraph 9 then paragraphs 15 and 16 require that the entity recognize a liability (unless certain conditions are met). These conditions go more to the heart of the definition of an asset and a liability. They look at whether the entity has any other obligations and whether it can effectively keep the money. This is similar to an IPSAS 23 approach
Accounting – Entity	IFRS 15 accounting is not appropriate. In the absence of an IPSAS 23 type standard entities would refer to the hierarchy in IPSAS 3. The entity receiving the funds would have to decide the point at which it obtains control of an asset. This is probably as payment is received.

Example 7: IFRS 15 Comments

The guidance in IFRS 15 is not applicable for this example as the recipient public sector entity does not have specific obligations to provide goods and services in return for the funding.

Example 7 Grant with no requirements – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	At what point is there an item that meets the definition of an asset? The recipient does not presently control a resource until it receives the cash.
Does the inflow satisfy the criteria for recognition as an asset?	At the point that the recipient receives the cash the inflow meets the definition of an asset and it is measureable.
Does the inflow result from a contribution from owners?	No. There is no evidence in this example that the transferor controls the public recipient. Even if the transferor did control the recipient, there is no evidence that the transferor was intending to establish or increase an interest in the net financial position of the recipient.
Is the transaction a non-exchange transaction?	Yes. The recipient is receiving value from the central government without *directly* providing goods or services in exchange. In fact there is no requirement to provide any goods and services.
Has the entity satisfied all of the present obligations related to the inflow?	The recipient has no present obligations in relation to the funding.
Accounting – Entity	DR Cash CU100,000 CR Revenue from Transfers CU100,000 *As payment is received*
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 7: IPSAS 23 Comments

There is a need for a residual revenue standard such as IPSAS 23.

Example 8 Forgiveness of Loan

No Performance Obligation with No Additional Factors

	Public sector entity forgives the remaining amount owed to it by another public sector entity.
Specifications	Not applicable
Cost	CU50,000
Timing of payment	No cash flow. The decision to forgive the balance of the loan is made at the end of January and communicated to the entity owing the funds in February.
Availability of funds	Assume that the expense for the amount forgiven was appropriately authorized by an appropriation.
Eligibility requirements	Not applicable.

Example 8 Forgiveness of loan – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Assumptions: • There is a loan agreement. • The decision to forgive the loan is not dependent upon the recipient delivering goods and services. The decision to forgive the loan does not fall within the scope of IFRS 15 because the loan forgiveness is not in return for the provision of goods and services.
Step 2 – Identify the performance obligations in the contract	Not applicable
Step 3 – Determine the transaction price	Not applicable
Step 4 – Allocate the transaction price	Not applicable
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable.
Accounting	An entity applying IFRS would refer to IFRS 9, *Financial Instruments* to determine how to account for the forgiveness of the loan.

Example 8: IFRS 15 Comments

The requirements in IFRS 15 do not work in this context because the loan forgiveness was not provided in return for specific goods and services.

Example 8 Forgiveness of Loan – IPSAS 23 approach	
Does the inflow give rise to an item that	IPSAS 23 is clear that forgiveness of a loan results in an inflow that is accounted for by decreasing the carrying amount of a liability.

Example 8 Forgiveness of Loan – IPSAS 23 approach	
meets the definition of an asset?	The recipient presently controls the inflow at the point that it receives formal notification that the loan has been forgiven.
Does the inflow satisfy the criteria for recognition as an asset?	The inflow satisfies the criteria for a decrease in a liability. At the point that the recipient receives formal notification that the loan has been forgiven it has an inflow that is measureable.
Does the inflow result from a contribution from owners?	No. There is no evidence in this example that the forgiveness of the loan is intended to establish or increase an interest in the net financial position of the recipient.
Is the transaction a non-exchange transaction?	Yes. The recipient is receiving value without any requirement to provide goods or services in exchange.
Has the entity satisfied all of the present obligations related to the inflow?	The recipient has no present obligations in relation to the funding.
Accounting – Entity	IPSAS 23 paragraph 87 states that revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven. DR Loan CU50,000 CR Revenue from forgiveness of loan CU50,000 *When the recipient receives documentation that the loan has been forgiven*

Example 8: IPSAS 23 Comments

IPSAS 23 and IPSAS 29 specifically address loan forgiveness.

Example 9 Research Agreement: Health

Performance Obligations With Additional Factor (Eligibility Requirement)

	A government gives money to a university for research into the most effective way of helping people to stop smoking.
Specifications (Quantity, quality, location, timing of services)	The project will result in a research report. Key milestones include: completion of literature review, collection of data and completion of the report. The research agreement will specify how the project will be carried out (for example, the role of the Project Leader, other university employees and students). The project is subject to certain codes of ethics and requires approval from an ethics committee. The research will be conducted at the University, using the University's facilities. The agreement commences on the effective date and terminates at the completion of the project.
Cost	CU100,000 Details of the funds spent must be provided, and, if there is any unspent funds, they must be repaid to the Government at the end of the research.

	A government gives money to a university for research into the most effective way of helping people to stop smoking.
Timing of payment	There are to be three payments: 50% of the total within 10 working days of signing the agreement. 40% of the total on satisfactory completion of data collection. 10% of the total on satisfactory receipt of the final report. Variation: The Government will fund the actual project costs, up to a maximum of CU100,000. The University will invoice the Government quarterly.
Availability of funds	The Government has authorized funds available.
Other	The University has the right to publish the results of the research. The Government has the right to use the research findings in developing its policies and can make the findings available to others. The Government can cancel the agreement immediately if the University is in serious breach of the agreement.

Example 9 Research Agreement Health – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: There is a grant agreement ✓ Parties: • Entity: University • Customer: Government Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract✓ • The entity can identify each party's rights to goods and services to be transferred✓ The asset to be produced is the research report. There may be other requirements such as requirements to present the findings at conferences. • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration. The University will expect that it will complete the research and report and that the Government will pay the agreed amounts. ✓ Can either party terminate wholly unperformed contract without compensation? No. The Government can cancel the agreement if the University is in serious breach of the agreement but is a standard type of clause that would be in most commercial contracts. *Conclusion: assume there is an agreement that would fall within the scope of a performance obligation standard. It is questionable though whether it is appropriate to base revenue recognition on the completion of the research report if this is only a small part of the project.*
Step 2 – Identify the performance obligations in the contract	The obligations are to conduct the research in accordance with the agreement, to write the research report and to make the research report available to the Government. The research will be conducted in stages (for example, literature review, design, data collection, analysis, report).

Example 9 Research Agreement Health – IFRS 15 approach	
	Although some of these activities (for example, the literature review) could have been established as a distinct activity, the various phases are not distinct within the context of the entire contract. Each one represents an input to produce a combined output—a research report. Because the various phases of the research agreement are interrelated, the University would not have distinct performance obligations for each phase. There is a single performance obligation. Variation: The assessment of the University's performance obligation would be the same under the variation with different payment terms.
Step 3 – Determine the transaction price	CU100,000
Step 4 – Allocate the transaction price	As there is a single performance obligation there is no need to allocate the transaction price.
Step 5 – Recognize revenue when a performance obligation is satisfied	The performance obligation to provide the research report is satisfied at a point in time (IFRS 15 paragraph 38). The University recognizes revenue when it satisfies the performance obligation. That is, on completion of the research report.
Resource Provider Recognition	The central government also could recognize expense when the University satisfies the performance obligation by completing the research report.
Accounting – Entity	DR Cash CU50,000 CR Contract liability CU50,000 *On receipt of 50% of the total within 10 working days of signing the agreement* DR Cash CU40,000 CR Contract liability CU40,000 *On receipt of 40% of the total on satisfactory completion of data collection* DR Cash CU10,000 CR Contract liability CU10,000 *On receipt of 10% of the total on satisfactory receipt of the final report* DR Contract liability CU100,000 CR Revenue CU100,000 *On completion of the research report* Variation: Under the variation the journals for the cash inflow would change – cash would be received each quarter. However, the final recognition of revenue would still occur on completion of the research report.
Accounting – Resource Provider	DR Prepaid asset/Advance CU50,000 CR Cash CU50,000

Example 9 Research Agreement Health – IFRS 15 approach	
	On payment of 50% of the total within 10 working days of signing the agreement DR Prepaid asset/Advance CU40,000 CR Cash CU40,000 *On payment of 40% of the total on satisfactory completion of data collection* DR Prepaid asset/Advance CU10,000 CR Cash CU10,000 *On payment of 10% of the total on satisfactory receipt of the final report* DR Research grant expense CU100,000 CR Prepaid asset/Advance CU100,000 *On completion of the research report* Variation: Under the variation the journals for the cash outflow would change – cash would be paid each quarter. However, the final recognition of expense would still occur on completion of the research report.

Example 9: IFRS 15 Comments

Under the IFRS 15 approach, the performance obligation would be satisfied at a point in time, rather than over time. Therefore revenue recognition would not occur until the research report was completed.

The main issue is whether it would be appropriate to apply the IFRS 15 revenue recognition model to this type of transaction if the research report were only a small part of the total output.

Example 9 Research Agreement Health – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	The University will receive three payments: • 50% of the total within 10 working days of signing the agreement • 40% of the total on satisfactory completion of data collection. • 10% of the total on satisfactory receipt of the final report. Because the University is receiving 50% of the total near the beginning of the project it is likely to be in a position where it has received more than it has spent. There we have focused on cash as the asset (rather than the right to be paid for work done). *Should we also be looking at when the University could argue that it has an unconditional right to be paid?* Variation: The University will receive a payment each quarter. The University will be incurring costs each month and then invoicing the Government for those costs. As long as the total costs are less than CU100,000 they will be refunded under an enforceable agreement. The University presently controls an unconditional right to be paid as at the end of each month in respect of the costs it has incurred on the project.

Example 9 Research Agreement Health – IPSAS 23 approach	
Does the inflow satisfy the criteria for recognition as an asset?	Yes. On receipt of the cash the University will have an item that meets the definition of an asset and is measurable. Variation: At the end of each month the University will have an item that meets the definition of an asset and is measurable.
Does the inflow result from a contribution from owners?	No. The payments are for the research. There is no evidence that payments are intended to establish or increase an interest in the net financial position of the University. Variation: No change to the analysis.
Is the transaction a non-exchange transaction?	No. The transaction is an exchange transaction. The Government receives the research report and directly gives approximately equal value (in the form of cash) to the University. Other parties also receive benefits from the research and will be able to use the information in the research report, but this does not affect the fact that Government is receiving benefits from the research. *Classification as exchange or non-exchange is debateable, depending upon the circumstances.* Variation: No change to the analysis.
Has the entity satisfied all of the present obligations related to the inflow?	Assumption: • The agreement is enforceable. • The government will enforce the agreement. Despite arguing that this is an exchange transaction (see the immediately preceding discussion, we have also considered whether there would be a present obligation under IPSAS 23 and the *Conceptual Framework*. <u>IPSAS 23 paragraphs 50-58</u> The University has a duty to act or perform in a certain way. It has to conduct the steps in the research project and make the research report available to the Government. The present obligations are imposed by the agreement with the Government. The Government has imposed the condition that any unspent funds must be repaid to the Government. IPSAS 23 paragraph 55 states that conditions on a transferred asset give rise to a present obligation that is recognized if it satisfies the recognition criteria in paragraph 50 (probable outflow to settle the obligation and reliable estimate). The obligation to perform the research would constitute a present obligation that satisfied the recognition criteria in IPSAS 23. IPSAS 23 does not provide guidance on the satisfaction of the present obligation over time. It does acknowledge (paragraph 23) that performance may need to be monitored. The points that the University would use as indicators of satisfaction of the present obligation are not clear from the example. Probably it would argue that revenue should be recognized as it incurs costs. <u>Conceptual Framework paragraphs 5.6-5.26</u> A present obligation of the entity for an outflow of resources that results from a past event. The University has a legally binding obligation to conduct the research and complete the research report. The Government can require that the University

Example 9 Research Agreement Health – IPSAS 23 approach	
	return any unspent money. Presumably it could use legal remedies to force the University to complete the research. Variation: Yes, because the University is invoicing in respect of costs to be reimbursed.
Accounting – Entity	The journal entries if IPSAS 23 or the *Conceptual Framework* were applied would be as follows: DR Cash CU50,000 CR Performance obligation CU50,000 *On receipt of 50% of the total within 10 working days of signing the agreement* DR Cash CU40,000 CR Performance obligation CU40,000 *On receipt of 40% of the total on satisfactory completion of data collection* DR Cash CU10,000 CR Performance obligation CU10,000 *On receipt of 10% of the total on satisfactory receipt of the final report* DR Performance obligation (up to CU100,000) CR Revenue (up to CU100,000) *Over the life of the project, with the final entry occurring on completion of the research report* *Note: the journals for project expenses are not shown*
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 9: IPSAS 23 Comments

IPSAS 23 does not provide much guidance on the satisfaction of a present obligation, but the University would be likely to recognize revenue over the life of the project, as it incurred costs.

Revenue recognition would occur earlier under IPSAS 23 than IFRS 15.

Example 10: Research Agreement: Science

Performance Obligations with Additional Factor (Timing Requirement)

	A government agrees to fund a five year project to develop ground motion prediction models for global shallow crustal earthquakes.
Specifications (Quantity, quality, location, timing of services)	An annual report on progress is required at the end of each year. The research agreement will specify how the project will be carried out (for example, the role of the Project Leader, other University employees and students). The research will be conducted at the University, using the University's facilities. The agreement commences on the effective date and terminates at the completion of the project.
Cost	CU500,000
Timing of payment	100,000 is to be provided at the beginning of each year. The University does not have to refund any unspent money.
Availability of funds	The funds for the project have to be appropriated each year.
Other	The University has the right to publish the results of the research.

Example 10 Research Agreement Science – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: There is a research agreement ✓ Parties: • Entity: University • Customer: Central government Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract✓ • The entity can identify each party's rights to goods and services to be transferred. If IFRS 15 were to be applied to this type of agreement, this criterion would need to be modified. The University's rights and obligations are set out in the research agreement, but it is not clear that the government has any rights under the agreement. There is no transfer of control of an asset. Presumably the Government will benefit from having more knowledge about earthquakes. • The entity can identify payment terms✓ • Contract has commercial substance. The University will get more funding, so it has substance in that sense. However, would the University have carried out the project regardless of whether it got funding? • Probable that will collect consideration. In order to answer "yes" to this criterion, the University would have to expect that it will complete the project and that the government will obtain authorization and pay it. This does not require absolute certainty – just a view based on the University's best knowledge about the Government's ability to pay. ✓

Example 10 Research Agreement Science – IFRS 15 approach	
	Contract has fixed duration? Yes. 5 years. *Conclusion: This transaction would be unlikely to fall within the scope IFRS 15 unless we made some modifications to that approach.*
Step 2 – Identify the performance obligations in the contract	Although there is an obligation to use the funds in accordance with the research agreement and to complete the research project, there is no obligation to transfer goods or services to the Government. *Conclusion: There does not appear to be a performance obligation within the scope of IFRS 15*.
Step 3 – Determine the transaction price	CU100,000 x 5 = CU500,000
Step 4 – Allocate the transaction price	Not applicable.
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable.
Accounting	IFRS 15 accounting is not appropriate. In the absence of an IPSAS 23 type standard entities would refer to the hierarchy in IPSAS 3. The entity receiving the funds would have to decide the point at which it obtains control of an asset. This might be when the agreement is signed, if that is before payment is received.

Example 10: IFRS 15 Comments

This agreement would not fall within the scope of IFRS 15 because there is no obligation to transfer goods or services to the Government.

Some research agreements might fall within the scope of IFRS 15 (where there is a clear output that will benefit the entity paying for the research). But, there are also likely to be other agreements where the research report is peripheral to the agreement and the recipient is being funded to do something that it would have done anyway.

If the IPSASB wanted to extend the scope of the revenue recognition model in IFRS 15 to this type of agreement it would need to modify IFRS 15 by rewriting the guidance on transfer of control.

Example 10 Research Agreement Science – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	The cash paid at the beginning of each year meets the definition of an asset. The cash to be paid in future years does not meet the definition of an asset as the University does not have a present right to the funding for future years.
Does the inflow satisfy the criteria for recognition as an asset?	Yes. On receipt of the cash the University will have an item that meets the definition of an asset and is measurable.
Does the inflow result from a contribution from owners?	No. The payments are for the research. There is no evidence that payments are intended to establish or increase an interest in the net financial position of the University.

Example 10 Research Agreement Science – IPSAS 23 approach	
Is the transaction a non-exchange transaction?	Yes.
Has the entity satisfied all of the present obligations related to the inflow?	IPSAS 23 requires the recognition of present obligations arising from conditions on a transferred asset. This example would not meet the IPSAS 23 test. However when you look at the description of a present obligation in the *Conceptual Framework*, it is possible to argue that the University has a present obligation to spend the funds in performing the research. It does not have an obligation to return unspent funds, but if there is an enforceable research agreement the Government could take action to require the University to conduct the research.
Accounting – Entity	DR Cash CU100,000 CR Revenue CU100,000 *On receipt of the cash at the beginning of each year*
Accounting – Resource Provider	Refer to Agenda Item 8.3.

Example 11 Licence Fees

<table>
<tr><td></td><td>A central government operates a vehicle quota system and vehicle ownership tax to moderate the growth of the vehicle population at a rate that can be supported by the road network.
Vehicle owners must pay a registration fee, an additional registration fee and a road tax.</td></tr>
<tr><td>Specifications (Quantity, quality, location, timing of services)</td><td>Registration fee: This fee covers the costs of registering a vehicle. It is collected upon registration of the vehicle. Registration officially recognizes the person as the person legally responsible for the vehicle.

Additional registration fee: This fee is a tax imposed upon registration of a vehicle. It is calculated based on a percentage of the Open Market Value (OMV) of the vehicle.

Road tax: All vehicle owners must have a valid vehicle licence for their vehicles before these vehicles can be used on the roads.

Most road taxes are renewable on a six-month or yearly basis. Vehicle owners must fulfil the prerequisites (e.g. obtain motor insurance coverage for the new licensing period, pass the periodic vehicle inspection, etc.) prior to the renewal of the vehicle licences.</td></tr>
<tr><td>Cost</td><td>Registration fee: CU150

Additional registration fee: This is based on a percentage of the Open Market Value (OMV) of the vehicle.

<table><tr><th>Vehicle OMV</th><th>Rate</th></tr><tr><td>First CU20,000</td><td>100%</td></tr><tr><td>Next CU30,000
(i.e. CU20,001 to CU50,000)</td><td>140%</td></tr><tr><td>Above CU50,000</td><td>180%</td></tr></table>
Road tax: This is based on the engine capacity.</td></tr>
<tr><td>Timing of payment</td><td>Registration and the additional registration fee are paid when the vehicle is first registered.
The road tax is renewable on a six-month or yearly basis.</td></tr>
<tr><td>Availability of funds</td><td>Not applicable.</td></tr>
<tr><td>Eligibility criteria</td><td>No specific criteria over and above the specifications set out above.</td></tr>
</table>

Example 11 Licence fees – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: There might be an implied agreement about what the vehicle owner is entitled to after paying the fees, but it is not an agreement between the parties. The Government has determined the terms and conditions. Parties: • Entity: Central government • Customer: Vehicle owners Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract. This is debatable. The terms and conditions have been imposed by the government. There may have been an element of consultation prior to setting the rates. • The entity can identify each party's rights to goods and services to be transferred ✓ • The entity can identify payment terms ✓ • Contract has commercial substance ✓(as expressed in IFRS 15) • Probable that will collect consideration ✓(even though there might be some individuals that do not pay) Contract has fixed duration? Yes *Conclusion:* *It could be argued that there are performance obligations within these transactions that could be accounted for using a performance obligation standard. However, there are likely to be debates about whether the goods and services provided to the vehicle owners are significant compared to the fees paid and the regulatory reasons for having such fees.*
Step 2 – Identify the performance obligations in the contract	The registration fee officially recognizes the person as the person legally responsible for the vehicle. However, the central government receives most of this benefit. The vehicle owner does not receive any transfer of good or service. The additional registration fee has no performance obligation. The fee is a tax to restrict the vehicles on the road. The central government receives most of this benefit. The vehicle owner does not receive any transfer of goods or services. The road tax gives the vehicle owner the right to use their vehicle on the road. There is no performance obligation in the road tax. *Conclusion: there are no performance obligations to which the revenue recognition model in IFRS 15 would be applied*
Step 3 – Determine the transaction price	Not applicable.
Step 4 – Allocate the transaction price	Not applicable.

Example 11 Licence fees – IFRS 15 approach	
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable.
Accounting	Not applicable.

Example 11: IFRS 15 Comments

Fees where there is no transfer of good or service would not fall within an IFRS 15 approach. Although it may be called a fee, the substance is a tax and the public sector entity receives most of the benefit.

Fees which have a regulatory component are currently classified as exchange or non-exchange transactions depending upon the value of the goods and services provided compared to the amount of the fee. Because the nature of such fees varies, the use of different models and the need to decide which model is appropriate is likely to continue.

If the party paying for the licence fee is another public sector entity, the analysis above does not change.

Example 11: Licence fees – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Yes, the central government controls the inflow at the point of the taxable event. This is the registration of the vehicle (registration fees) and renewal of the road tax.
Does the inflow satisfy the criteria for recognition as an asset?	Yes. The inflow satisfies the criteria for an increase in an asset. The inflow is measureable at the taxable event, this is the registration of the vehicle (registration fees) and renewal of the road tax.
Does the inflow result from a contribution from owners?	No.
Is the transaction a non-exchange transaction?	Yes. Although the vehicle owner may be receiving some benefit (official registration of vehicle ownership and permit to use their vehicle on the road), the benefits are not of approximately equal value to the fees and taxes paid.
Has the entity satisfied all of the present obligations related to the inflow?	Yes. The central government has an obligation to keep the registration records up to date and maintain the roads for safe driving.
Accounting – Entity	IPSAS 23 paragraph 59 states that an asset in respect of taxes is recognized when the taxable event occurs and the asset recognition criteria are met. DR Receivable CR Revenue (registration fee, additional registration fee, road tax) *At the taxable event* DR Cash CR Receivable *When the vehicle owner pays the fees and tax*
Accounting – Resource Provider	Specific guidance for this transaction currently does not exist. While the provisions of IPSAS 19 could apply, if a public sector entity is making

Example 11: Licence fees – IPSAS 23 approach	
	payment to another public sector entity for a licence fee, the expense should be recorded at the time of the taxable event.

Example 12: Fees Paid to Regulatory Bodies

	A public sector entity administers the licensing regime for real estate agents (licensees). The public sector entity also sets professional standards and manages complaints.
Specifications (Quantity, quality, location, timing of services)	The annual charge to real estate licensees is an operating levy to cover the on-going costs of the public sector entity providing the services. The annual charge permits a licensee to operate as a real estate agent for one year.
Cost	The annual charge is CU500.
Timing of payment	Anytime during the year.
Availability of funds	Funds are available. The public sector entity providing resources has authority to receive and spend the annual charge.
Eligibility criteria	The public sector entity’s mandate to charge the licensees is set out in legislation.

Example 12 Fees paid to regulatory bodies – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: ✓ This is debateable. There may have been an element of consultation about the amount of the annual charge or how costs would be recovered. Parties: • Entity: Public sector entity • Customer: Licensees Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract ✓ • The entity can identify each party’s rights to goods and services to be transferred✓ • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration ✓ Contract has fixed duration? Yes Can either party terminate wholly unperformed contract without compensation? Assume No *Conclusion: assume there is an agreement that would fall within the scope of a performance obligation standard.*

Example 12 Fees paid to regulatory bodies – IFRS 15 approach	
Step 2 – Identify the performance obligations in the contract	In the agreement, the public sector entity has promised to perform a task (register the licensees so they can operate as a real estate agent for one year) for the licensee. The registration of the licensees is a distinct service. *Conclusion: it is possible to identify the performance obligations in the agreement*
Step 3 – Determine the transaction price	The transaction price is CU500 per licensee.
Step 4 – Allocate the transaction price	CU500 would be allocated to the performance obligation.
Step 5 – Recognize revenue when a performance obligation is satisfied	Assumptions: • No contract modifications • Not a loss making contract • Annual charge is non-refundable. The public sector entity would recognize revenue as it satisfies the performance obligation over time. The performance obligation is satisfied equally over time, therefore the public sector entity would recognize the revenue on a pro-rata basis over the year. A liability is recognized until the entity has no remaining performance obligations to transfer goods or services to the customer (IFRS 15 paragraph 16).
Accounting	DR Cash CR Annual charge received in advance *Receipt of cash for the annual charge* DR Annual charge received in advance CR Annual charge revenue *Pro rata of annual charge revenue (1/12 each month)*

Example 12: IFRS 15 Comments

Fees paid to regulatory bodies are likely to fall within the scope of IFRS 15 (where there is a clear output that will benefit the fee payer).

Although public sector entities may pay other public sector entities for registration fees, this example likely indicates licence of individuals, not an entity. If fees such as this are paid by an entity, because this is an exchange transaction it is out of the current scope of the non-exchange expenses project.

Example 12: Fees paid to regulatory bodies – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Yes, the public sector entity controls the inflow at the point it receives the annual charge payment from the licensees.
Does the inflow satisfy the criteria for recognition as an asset?	Yes. The inflow satisfies the criteria for an increase in an asset. At the point the public sector entity receives the annual charge payment it has an inflow that is measureable.
Does the inflow result from a contribution from owners?	No evidence that it is intended to be a contribution from owners.
Is the transaction a non-exchange transaction?	No. The transaction is an exchange transaction. The licensees pay their fees and are permitted to operate as real estate agents.
Has the entity satisfied all of the present obligations related to the inflow?	Despite arguing that this is an exchange transaction (see row immediately above), we have considered whether there would be a present obligation under IPSAS 23 and the *Conceptual Framework*. IPSAS 23 paragraphs 50-58 The public sector entity has a duty to act or perform in a certain way. It must: • Register the licensees; • Establish, develop and monitor professional entry requirements for licensees, continuing education programmes and professional Code of Conduct standards for the real estate; and • Respond to enquiries and complaints, investigate problems in the real estate industry and ensure appropriate action is taken to sanction any unsatisfactory conduct, misconduct or illegal behaviour. The present obligations are imposed by the agreement with the licensees. However, there is no return obligation so there is no condition under IPSAS 23. Conceptual Framework paragraphs 5.6-5.26 The public sector entity has a legally binding obligation to carry out the above functions. Possible to argue that there is “A present obligation of the entity for an outflow of resources that results from a past event.”
Accounting	The annual charge is non-refundable. DR Cash CR Annual charge received in advance *Receipt of cash for the annual charge* DR Annual charge received in advance CR Annual charge revenue *Pro rata of annual charge revenue (1/12 each month)*

Note: Examples 13-15 do not apply to public sector entities providing resources; therefore, no discussion of the resource provider is shown.

Example 13 Right to Use Assets

	A public sector entity receives a donated right to use a building. The arrangement is long-term. The public sector entity does not have exclusive control (or joint exclusive control) of the building.
Specifications (Quantity, quality, location, timing of services)	The agreement is for 10 years. Ownership of the building is not transferred to the public sector entity at the end of the agreement.
Cost	The annual charge is nil. The fair value of the rent is CU300,000 annually.
Timing of payment	Not applicable
Availability of funds	Not applicable
Eligibility criteria	Not applicable

Example 13: Right to use assets – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: No. The definition of a contract in IFRS 15 merely states that it is an agreement between two or more parties that create enforceable rights and obligations. The definition in IFRS 15 does not mention consideration, although IFRS 15 paragraph 9 limits the scope of the standard to contracts where “the entity can identify the payment terms”. Consideration is usually required for there to be a contract under contract law. The legal document used to record this agreement is more likely to be a deed. There is no requirement for consideration in order for the deed to be binding. Parties: • Entity: Public sector entity • Asset provider: Building owner Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract ✓ • The entity can identify each party’s rights to goods and services to be transferred✓ • The entity can identify payment terms. No. There are no payment terms in the agreement because the lease is a donation. • Contract has commercial substance. No. This contract has no impact on the future cash flows of the entity because it is effectively a non cash donation. • Probable that will collect consideration. No. There will be no consideration because it is effectively a non cash donation. Contract has fixed duration? Yes

Example 13: Right to use assets – IFRS 15 approach	
	Can either party terminate wholly unperformed contract without compensation? Assume yes *Conclusion: The requirements in IFRS 15 do not work in this example because the right to use the building was not provided in return for specific goods and services. It is essentially a donation.*
Step 2 – Identify the performance obligations in the contract	Not applicable.
Step 3 – Determine the transaction price	Not applicable.
Step 4 – Allocate the transaction price	Not applicable.
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable.
Accounting	Not applicable.

Example 13: IFRS 15 Comments

The right to use an asset raises similar issues to services in-kind. This example would not fall within the scope of IFRS 15 because the right to use the building was not provided in return for specific goods and services.

Example 13: Right to use assets – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Yes, the public sector entity controls the inflow at the point the arrangement for the building is entered into.
Does the inflow satisfy the criteria for recognition as an asset?	Yes. The inflow satisfies the criteria for an increase in an asset. At the point the public sector entity has rights to use the building under the arrangement it has an inflow that is measureable.
Does the inflow result from a contribution from owners?	No evidence that it is intended to be a contribution from owners.
Is the transaction a non-exchange transaction?	Yes. The public sector entity is receiving value from the building owner without directly providing goods or services in exchange. In fact there is no requirement for the public sector entity to provide any goods and services.
Has the entity satisfied all of the present obligations related to the inflow?	The public sector entity has no present obligations in relation to the right to use the building.

Example 13: Right to use assets – IPSAS 23 approach	
Accounting	The accounting depends on the view that you take. We have set out three possible approaches below. View A: If you regard the right to use the asset as an asset in its own right the journals would be: DR Right to Use Asset CU3,000,000 CR Revenue CU3,000,000 *Recognize the donated right to use as an asset when the arrangement is entered into.* DR Amortization expense CU300,000 CR Right to Use Asset – Accumulated amortization CU300,000 *Amortize the right to use asset over time.* View B: If you regard the right to use the asset as giving rise to rights at the beginning of each year the journals would be: DR Rent expense CU300,000 CR Revenue CU300,000 *Recognize the fair value of the annual rent* View C: Some would argue that the arrangement gives rise to deferred revenue. We do not have any basis to support this view. Nevertheless, we have included the journals for this view: DR Asset CU3,000,000 CR Deferred revenue CU3,000,000 *Recognize an asset and deferred revenue* DR Deferred revenue CU300,000 CR Revenue CU300,000 *Recognize revenue over the term of the arrangement* DR Rent expense CU300,000 CR Asset CU300,000 *Recognize rent expense over the term of the arrangement*

Example 13: IPSAS 23 Comments

The accounting for this transaction depends on what view you take. This situation is not explicitly addressed by IPSAS 23.

Should this issue be dealt with in the revenue project or a project on leasing?

Example 14 Services In-kind – Services From Professionals

	A hospital controlled by government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer programme.
Specifications (Quantity, quality, location, timing of services)	The medical profession provides the hospital with 100 hours of voluntary services each week. The medical practitioners are from a number of specialities and have at least 5 years practical experience. The agreement between the hospital and medical practitioners specifies the services to be provided.
Cost	The annual charge is nil. The fair value of the medical services in kind is CU500,000. This fair value is determined by reference to a published schedule of fees.
Timing of payment	Not applicable
Availability of funds	Not applicable
Eligibility criteria	Not applicable

Example 14: Services in kind – services from professionals – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: No. See Example 13. Although this might fall within the definition of a contract as it is worded in IFRS 15, IFRS 15 paragraph 9 limits the scope of the standard to contracts where "the entity can identify the payment terms". Parties: • Entity: Hospital Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract ✓ • The entity can identify each party's rights to goods and services to be transferred.✓ • The entity can identify payment terms. No. There are no payment terms in the agreement because it is a service in kind. • Contract has commercial substance. No. This contract has no impact on the future cash flows of the hospital because it is a service in kind. • Probable that will collect consideration. No. The consideration will not be received because it is a service in kind. Contract has fixed duration? Yes Can either party terminate wholly unperformed contract without compensation? Assume yes *Conclusion: The requirements in IFRS 15 do not work in this contract because the services in kind were not provided in return for specific goods and services.*

Example 14: Services in kind – services from professionals – IFRS 15 approach	
Step 2 – Identify the performance obligations in the contract	Not applicable.
Step 3 – Determine the transaction price	Not applicable.
Step 4 – Allocate the transaction price	Not applicable.
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable.
Accounting	Not applicable.

Example 14: IFRS 15 Comments

IFRS 15 was not intended to be applied to agreements where there is no payment.

Services in kind would not fall within the scope of an IFRS 15 approach because there is no transfer of good or service in return for the voluntary service.

Example 14: Services in kind – services from professionals – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Yes, the hospital controls the inflow at the point the agreement is signed between the two parties.
Does the inflow satisfy the criteria for recognition as an asset?	Yes. The inflow satisfies the criteria for an increase in an asset. The inflow is measureable at the point the agreement is signed between the two parties.
Does the inflow result from a contribution from owners?	No evidence that it is intended to be a contribution from owners.
Is the transaction a non-exchange transaction?	Yes. The public sector entity is receiving services from the medical practitioners without providing any consideration in exchange.
Has the entity satisfied all of the present obligations related to the inflow?	The public sector entity has no present obligations in relation to the services in-kind from the medical profession.
Accounting	Optional recognition under IPSAS 23: DR Medical profession expense CU500,000 CR Revenue CU500,000 *Fair value of the annual medical profession's services in kind*

Example 15: Services In-kind – Guaranteed by Government

	A central government provides a guarantee to a local government when there is a shortage of volunteers. The local government operates a library which is partially run by volunteers. Sometimes it is difficult to find volunteers. When there is a shortage the central government provides staff at no cost to the local government.
Specifications (Quantity, quality, location, timing of services)	Central government provides the volunteers when the local government has been actively recruiting for a continuous period of two months.
Cost	There is no physical cost to local government. The fair value of the volunteer is on average CU10,000 per person.
Timing of payment	There is no payment from the local government to the central government.
Availability of funds	The expected central government spending under the guarantee was appropriately authorized by an appropriation.
Eligibility criteria	Not applicable

Example 15: Services in kind – government guarantee – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: ✓ Parties: • Entity: Local government • Resource provider: Central government Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract ✓ • The entity can identify each party's rights to goods and services to be transferred.✓ • The entity can identify payment terms. No. There is no payment. • Contract has commercial substance. No. This contract has no impact on the future cash flows of the local government because it is a service in kind. • Probable that will collect consideration. No. The local government does not collect any consideration in exchange for the volunteers provided by central government. Contract has fixed duration? Yes Can either party terminate wholly unperformed contract without compensation? Assume yes *Conclusion: The requirements in IFRS 15 do not work in this contract because the services in kind were not provided in return for specific goods and services.*

Example 15: Services in kind – government guarantee – IFRS 15 approach	
Step 2 – Identify the performance obligations in the contract	Not applicable.
Step 3 – Determine the transaction price	Not applicable.
Step 4 – Allocate the transaction price	Not applicable.
Step 5 – Recognize revenue when a performance obligation is satisfied	Not applicable.
Accounting	Not applicable.

Example 15: IFRS 15 Comments

Services in kind would not fall within the scope of an IFRS 15 approach because there is no transfer of goods or services in return for the voluntary service.

Example 15: Services in kind – government guarantee – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Yes, the local government controls the inflow at the point the government provides the guarantee.
Does the inflow satisfy the criteria for recognition as an asset?	Yes. The inflow satisfies the criteria for an increase in an asset. The inflow is measureable at the point the government provides the guarantee.
Does the inflow result from a contribution from owners?	No evidence that it is intended to be a contribution from owners.
Is the transaction a non-exchange transaction?	Yes. The public sector entity is receiving value from central government without directly providing an equal value of goods or services in exchange.
Has the entity satisfied all of the present obligations related to the inflow?	Yes
Accounting	IPSAS 23 permits, but does not require the recognition of donated services in kind. The expense and revenue may be recognized if the fair value can be measured reliably. If they were recognized, the journal would be: DR Salary CU10,000 CR Revenue CU10,000

Example 15: IPSAS 23 Comments

IPSAS 23 does not require the recognition of donated services in-kind. This is because there can be difficulties in asserting that the entity controls the resource, and difficulties in measuring the value of the services.

Example 16: Construction contracts settled by third parties

	Funding from a central government to a port authority that is part of a local government to construct a wharf.
Specifications (Quantity, quality, location, timing of services)	The central government is one of three entities contributing funds to the port authority's wharf. The central government will pay the contractors directly for the cost of the wharf. Upon completion, the port authority retains control of the wharf.
Cost	The central government will pay for the first 1/3 of the construction cost.
Timing of payment	The first 1/3 of the construction invoices are sent directly to the central government. Payments are made to the contractors on receipt of the invoice.
Availability of funds	The central government has authority to spend the funds.
Eligibility criteria	No specific criteria over and above the specifications set out above.

Example 16 Construction contracts settled by third parties – IFRS 15 approach	
Step 1 – Identify the contract(s) with the customer	Definition of a contract: ✓ Parties: • Entity: Port authority • Customer: Central government and two other fund providers Identifying the contract (to check whether it is within the scope of the Standard): • The parties have approved the contract ✓ • The entity can identify each party's rights to goods and services to be transferred. The rights of the parties are set out in the agreement (which will specify method of construction, location etc.) and in other documents or agreements ✓ • The entity can identify payment terms✓ • Contract has commercial substance ✓ • Probable that will collect consideration. In order to answer "yes" to this criterion, the port authority would have to expect that the central government will pay the contractors. Contract has fixed duration? Yes *Conclusion:* *This example has a number of different aspects that need to be considered and that may mean the example does not fall within the scope of an IFRS 15 Standard.*
Step 2 – Identify the performance	In the agreement, the port authority has promised to perform a task (completed wharf) for the central government. The central government is likely to be providing a significant integration service and the goods and

Example 16 Construction contracts settled by third parties – IFRS 15 approach	
obligations in the contract	services within the project agreement are likely to be highly dependent on or highly integrated with other goods and services. *Conclusion: it is possible to identify the performance obligations in the agreement and they are likely to be at the contract level*
Step 3 – Determine the transaction price	Assumptions: • The expected cost is CU10,000,000. This is the fair value. • The maximum funding from central government is 1/3 of the cost. The transaction price is the expected amount of CU10,000,000.
Step 4 – Allocate the transaction price	If it is a single performance obligation, the whole (expected) transaction price of 1/3 of CU10,000,000 would be allocated to that obligation.
Step 5 – Recognize revenue when a performance obligation is satisfied	Assumptions: • No contract modifications. • Not a loss making contract. The IFRS 15 criteria for recognition of revenue are based on *transferring control of the asset to the customer ie transferring the wharf to the central government.* The port authority is not going to transfer control of the wharf. However, if it were, it would need to decide whether to recognize revenue over time (as the wharf is constructed) or at a point in time (close to completion or on completion). Performance obligations to provide construction services will generally be satisfied over time. However, this is not automatic and each contract will need to be assessed against the criteria. However, these criteria don't work if the port authority is not going to transfer control of the asset. If the port authority were going to transfer control of the wharf, it could use an input method or an output method to measure progress. • Input method: contract costs incurred to date as a percentage of total forecast costs (exclude unexpected amounts of wasted material, labor etc). • Output method: surveys of work completed to date.
Resource Provider Recognition	The central government has agreed to pay the first 1/3 of total construction costs expected to total CU10,000,000. The central government would need to evaluate the construction contract in a similar manner described above to determine if the performance obligations for construction services are satisfied over time. The central government also could use the same input or output method described above to measure progress. The central government also is receiving invoices for work completed by the contractors, which likely specifies the work completed through each invoice date. The central government has a present obligation for the work completed by the contractors.
Accounting – Entity	DR Contract asset CR Revenue *Throughout year: As wharf is constructed.*
Accounting – Resource Provider	DR Infrastructure transfer CR Accounts Payable/Cash

Example 16 Construction contracts settled by third parties – IFRS 15 approach	
	Throughout year: As wharf is constructed and contractor invoices are received, up to the amount of maximum 1/3 of total construction costs.

Example 16: IFRS 15 Comments

This example is similar to a capital grant/goods in kind.

We need to think very carefully whether an IFRS 15 approach could appropriately be applied to this example. There is an obligation to do something (build the asset), but if the entity keeps the asset, then the guidance in the standard about transferring control (see especially the criteria for recognizing revenue over time - IFRS 15 paragraphs 31-37) does not work. We might need to explore the idea of what benefits the central government gets from the wharf and when it controls those benefits. If we want capital grants/goods in kind to fall within the performance obligation standard we would need to rewrite the requirements for recognition of revenue over time.

Capital grants/goods in kind are unlikely to fall under IFRS 15 as it is written. If the IPSASB wanted to deal with capital grants/goods in kind using a performance obligation approach a significant aspect of IFRS 15 would need to be modified.

Example 16: Construction contracts settled by third parties – IPSAS 23 approach	
Does the inflow give rise to an item that meets the definition of an asset?	Yes, the port authority controls the inflow at the point it receives notification that the cost for the wharf has been paid. [*Might it be earlier than this – what if the port authority knows that it has received goods and services from the contractors and that the central government has been invoiced*?]
Does the inflow satisfy the criteria for recognition as an asset?	Yes. The inflow satisfies the criteria for an increase in an asset. At the point the port authority receives notification that the cost for the wharf has been paid it has an inflow that is measureable. [*Might it be earlier than this– at time of invoice*?]
Does the inflow result from a contribution from owners?	No evidence that it is intended to be a contribution from owners.
Is the transaction a non-exchange transaction?	Yes. Although the central government is receiving some benefits from the wharf, it is not obtaining control over the wharf.
Has the entity satisfied all of the present obligations related to the inflow?	Yes. The cost of the wharf is paid by the central government as it is being constructed.
Accounting – Entity	IPSAS 23 paragraph 97 states that donations of goods in-kind are measured at their fair value as at the date of acquisition. Assuming the port authority obtains control over the wharf as it is constructed it would recognize revenue and an asset in accordance with IPSAS 17, *Property, Plant and Equipment*.

Example 16: Construction contracts settled by third parties – IPSAS 23 approach	
	DR Wharf CR Revenue from donated goods *Throughout year: As wharf is constructed.*
Accounting – Resource Provider	Refer to Agenda Item 8.3.

REVENUE AND NON-EXCHANGE EXPENSES WHETHER TO ISSUE CONSULTATION PAPERS

Background

1. This paper seeks the IPSASB's views on whether to issue Consultation Papers for the revenue and non-exchange expenses projects. The project briefs for these projects suggested that the decision about Consultation Papers should be made once some initial work had been done.

2. The IPSASB's Terms of Reference provide for Consultation Papers to be issued, but do not establish any criteria for deciding when this is appropriate. An extract from the IPSASB's Terms of Reference is included at Appendix 1. The IPSASB has tended to use Consultation Papers for major public sector specific projects (for example, social benefits, public sector combinations, public sector specific financial instruments). There have been more public sector specific projects, and therefore more Consultation Papers in recent years.

3. In order to assist the IPSASB in making a decision about the need for Consultation Papers for the revenue and non-exchange expenses projects this paper:

   (a) Identifies some advantages and disadvantages of having a Consultation Paper phase in a project; and

   (b) Identifies some key issues that would need to be raised in Consultation Papers, bearing in mind the work that has been done to date in each project.

Advantages and Disadvantages of Consultation Papers

4. The main advantages of consultation papers include the following:

   (a) Consultation Papers can provide useful feedback when the IPSASB is looking to make significant changes or is looking at alternative approaches for constituents to consider.

   (b) Consultation Papers improve the likelihood of developing an appropriate and workable approach the first time. They reduce the risk of having to change direction at a later stage of the project if constituents do not support the approach taken in an exposure draft.

   (c) Consultation Papers get constituents engaged and understanding the issues at an earlier stage of the project, which is particularly important for public sector specific issues. They assist in educating constituents about the issues being considered by the IPSASB and the options it has considered. This makes it more likely that constituents will understand the IPSASB's reasons for taking a particular approach. Consultation Papers can be a way of creating realistic expectations amongst constituents as they allow the IPSASB to explain more fully its reasons for preferring certain approaches.

5. The main disadvantages of Consultation Papers include the following:

   (a) Consultation Papers have a significant impact on how long it takes to complete a project. They add at least a year, possibly more, to the length of a project. The Public Interest Committee (PIC) has recently suggested that the IPSASB consider whether certain projects might be progressed more quickly.

(b) Consultation Papers have an impact on the IPSASB's overall work program due to greater amounts of staff time and resource being spent on specific projects.

(c) Consultation Papers are an additional due process document in the life of a project, and they run the risk that constituents become overloaded with requests to comment and, as a result, comment on fewer due process documents.

Revenue Project and Non-exchange Expense Project

Key Issues for Consultation Papers

6. Some of the bigger issues that we think would need to be explored in Consultation Papers on revenue and non-exchange expenses are discussed in this section. More detail on these issues is available in Agenda Papers 8.3 and 8.4.

Conceptual Framework

7. The project will draw upon the definitions and guidance in the *Conceptual Framework* and consider their application to revenue issues and non-exchange expenses issues. The *Conceptual Framework* is still a fairly new document and we do not have an established body of work to draw on when we are looking at how to apply the *Conceptual Framework* to specific situations. It will be important to seek feedback on whether constituents agree with the IPSASB's initial views on the application of the *Conceptual Framework* to situations.

Is the New Thinking In IFRS 15 Appropriate for the Public Sector

8. A key part of the revenue project involves considering whether the performance obligation approach and recognition model in IFRS 15, *Revenue from Contracts with Customers* would form an appropriate base for standards-level requirements for certain revenue and expense transactions in the public sector. This means we would need to explain to constituents:

   (a) Why IFRS 15 is regarded as an improvement upon the earlier IFRSs on which IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts* are based (possible reasons are discussed in more detail in the next paragraph);

   (b) Which revenue and expense transactions the IPSASB thinks the recognition model in IFRS 15 might be appropriate for; and

   (c) The types of modifications that would need to be made to the IFRS 15 recognition model for it to work in the public sector.

9. IFRS 15 represents an opportunity to improve current guidance because it replaces the previous limited revenue recognition requirements in IAS 18, *Revenue* and IAS 11, *Construction Contracts* (and various interpretations) with a robust and comprehensive framework. This framework provides a basis that should be more easily applied to complex transactions and which can cope with evolving revenue and expense transactions. It addresses some of the inconsistencies and weaknesses in previous IFRSs revenue requirements. Examples of how IFRS 15 is more comprehensive, or represents an improvement, are:

   (a) IFRS 15 provides more comprehensive requirements for revenue from the provision of services and revenue resulting from licences of intellectual property.

(b) IFRS 15 provides requirements for issues such as contract modifications that were previously addressed only for a particular industry.

(c) IFRS 15 provides improved requirements for multiple-element arrangements.

(d) There is one less revenue standard which reduces the number of requirements to which an organization must refer and which increases the chances of consistent accounting.

(e) The performance obligation recognition model introduced in IFRS 15 can be applied to many expense transactions (including non-exchange expense transactions)

10. A Consultation Paper would allow the IPSASB to convey this useful background information to constituents.

Scoping Issues

11. There are some important scope issues. IFRS 15 was designed to be applied to specific types of transactions – contracts with customers. Agenda Paper 8.4 explores what types of public sector transactions and performance obligations the recognition approach in IFRS 15 could be applied to. Our thinking at this stage is that there is likely to be a continuum of transactions, with the recognition model in IFRS 15 clearly being appropriate for some transactions (for example, certain exchange transactions) and clearly inappropriate for others (for example, where there is no performance obligation, the obligation is not clearly specified or the agreement is not enforceable). There would be a range of transactions in the middle where the appropriateness of the recognition model in IFRS 15 could be debated (for example, exchange transactions that do not involve contracts with customers and non-exchange transactions with performance obligations).

12. Consultation Papers would give the IPSASB the opportunity to seek feedback on how far the scope of IFRS 15 should be extended in the public sector. It would also give jurisdictions that have already looked at applying or modifying IFRS 15 to public sector entities the chance to share their views on appropriate scope and issues encountered.

13. If the IPSASB sets forth a preliminary view to adopt an IFRS 15 performance obligation approach for certain transactions, it will need to think about how to combine this approach with the exchange/non-exchange distinction that is currently used throughout IPSASs. There are a few options that could be considered. The IPSASB could provide more specific guidance about what is meant by the words "directly in exchange" within the definition of non-exchange transactions and effectively classify some transactions involving three parties (resource provider, service provider, and recipient) as exchange transactions. If the IPSASB prefers to leave the definition of non-exchange transactions unchanged we consider that it would be possible to revise the cross referencing in IPSASs to direct preparers to the appropriate standards, whilst retaining the concept of exchange and non-exchange transactions in IPSASs.

14. Because the exchange/non-exchange split has caused difficulties for some entities applying IPSAS 9 and IPSAS 23 for revenues and IPSAS 19 and other IPSASs for expenses, we consider that any proposals that would change the way in which revenue and expense transactions are grouped at a standards level needs to be clearly explained to constituents.

15. We also think it is important that constituents understand that IFRS 15 addresses a fairly narrow set of performance obligations. For example, IFRS 15 is built around enforceable contracts and it is questionable whether it is appropriate when there is no transfer of control of an asset. These issues are also discussed in Agenda Paper 8.4.

Modifications to the Approach in IFRS 15

16. There would need to be a number of modifications to IFRS 15 to make it appropriate for application in the public sector. We discussed potential modifications in the June agenda papers and have alluded to them in Agenda Paper 8.4 (including in the Examples to that paper).

17. Consultation Papers would give the IPSASB the opportunity to seek feedback on whether constituents agree that the proposed modifications are appropriate and sufficient. The IPSASB could also seek feedback on whether there are any aspects of the guidance in IFRS 15 that are not required in the public sector.

Proposals for Improving IPSAS 23

18. Some constituents have identified issues with IPSAS 23. We explored some of these issues in the IPSASB's September agenda papers and further developed those and other issues in Agenda Paper 8.1 *Revenues and Non-Exchange Expenses - Interviews of Preparers* Probably the biggest issue is the dissatisfaction with the big revenue fluctuations that occur when large grants with timing or purpose restrictions are paid in advance. Our initial view is that the IPSASB has a policy decision to make about whether the performance obligation approach in IFRS 15 should be applied to some of these transactions. This would involve stretching the IFRS 15 model to transactions that it was not designed for. This might be possible for some transactions such as capital grants, but we cannot see it being suitable for many transactions without clearly specified performance obligations.

19. That means the IPSASB will need to think about what else it can do to address constituent concerns about the impact of these transactions on reported performance. A Consultation Paper would be a good way to establish reasonable expectations about what the IPSASB could do and to seek views on any proposals.

20. Moreover, we believe that an alternative approach based on an improved IPSAS 23, that addresses both revenue and expenses should be presented in the Consultation Papers. Recognizing that a single proposal based primarily on IFRS 15 may not be viewed favorably by some constituents, an improved version of IPSAS 23, as explored in Agenda Paper 8.3, would comprehensively consider the advantages and disadvantages of such an approach, which would allow constituents an opportunity to assess both alternatives.

Rights to Use Assets

21. Constituents have identified that there is a need for guidance on rights to use assets. Consultation papers could seek feedback on whether this issue should be addressed in the revenue and expense standards or in a project on leases.

How Many Standards?

22. Another question that could be raised in Consultation Papers is whether there should be two revenue standards and two expense standards: one based on the performance obligation approach in IFRS 15 and a residual standard (which, in the case of revenue, could be based on an IPSAS 23 approach). (This assumes that the performance obligation based-approach is supported in the Board's preliminary view.) The use of one or two standards would not affect the underlying requirements in the standard(s).

Interaction with other Projects

23. The IPSASB has a number of significant projects underway at the moment, including a project on social benefits. Constituents need to understand what stage the projects are at and how any proposals will fit together.

24. To sum up, from the revenue and non-exchange expense projects' perspective, we consider that there are a number of significant issues that mean Consultation Papers would be appropriate. Although there is still a lot more work required to develop proposals and preliminary views for consideration by constituents, we think that it would be more efficient to do this as we develop the Consultation Papers.

25. We have provided preliminary outlines for Consultation Papers in Appendices 2 and 3. We would expect these to be refined as more work is done and proposals developed. However, the preliminary outlines might be useful for the IPSASB in considering whether or not to issue Consultation Papers.

26. The decision about what, if any, preliminary views to include in the Consultation Papers would be decided by the IPSASB as the Papers are drafted. We think that any Consultation Papers should include preliminary views on the issues raised.

Considering IPSASB's Processes

27. The IPSASB has a Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs* which sets out the IPSASB's process for considering Government Finance Statistics reporting guidelines during the development of IPSASs. It may be useful to seek feedback from constituents on the extent to which guidance in GFS could inform some of the IPSASB's thinking or areas where there might be conflicts. For example, on the revenue side, constituents have identified that it can be difficult to classify some licenses as fees for services or taxes. GFS guidance might assist with this classification. GFS also provides guidance on collective goods and services which will fall within the scope of the non-exchange expenses project.

Consultation Paper Recommendation

28. We recommend that the IPSASB agree to issue Consultation Papers for both the revenue project and the non-exchange expense project. We consider that the issues are significant and would benefit from constituents' views.

Matter(s) for Consideration

1. The IPSASB is asked to confirm that consultation papers would be appropriate for both the revenue project and the non-exchange expenses project.

Appendix 1

Extract from the IPSASB's Terms of Reference

The IPSASB is required to be transparent in its activities, and in developing IPSASs to adhere to due process.

The IPSASB issues exposure drafts of all proposed IPSASs and RPGs for public comment. In some cases, the IPSASB may also issue a Consultation Paper prior to the development of an exposure draft. This provides an opportunity for those affected by IPSASB pronouncements to provide input and present their views before the pronouncements are finalized and approved. The IPSASB considers all comments received on Consultation Papers and exposure drafts in developing an IPSAS or RPG.

The IPSASB cooperates with national standard setters in preparing and issuing IPSASs and RPGs to the extent possible, with a view to sharing resources, minimizing duplication of effort and reaching consensus and convergence in standards at an early stage in their development. It also promotes the endorsement of IPSASs and RPGs by national standard-setters and other authoritative bodies and encourages consultation with users, including elected and appointed representatives; Treasuries, Ministries of Finance and similar authoritative bodies; and practitioners throughout the world to identify user needs for new standards and guidance.

In developing its pronouncements, the IPSASB seeks input from its consultative group and considers and makes use of pronouncements issued by:

- The International Accounting Standards Board (IASB) to the extent they are applicable to the public sector;
- National standard setters, regulatory authorities and other authoritative bodies
- Professional accounting bodies; and
- Other organizations interested in financial reporting in the public sector.

The IPSASB will ensure that its pronouncements are consistent with those of IASB to the extent those pronouncements are applicable and appropriate to the public sector.

Appendix 2 Draft Outline Revenue Consultation Paper

This outline is preliminary. It has been included in this paper to help the IPSASB envisage what a Consultation Paper might cover.

Background/Drivers for the project

- Conceptual Framework
- New revenue thinking in IFRSs (and application of IFRS 15 to public sector entities in some jurisdictions)
- Issues with Existing IPSASs – it is a long time since these standards have been reviewed
- Desire for GFS Alignment

Importance of Standards-level Revenue Requirements

- Types of revenue
- Importance of information on revenue for accountability and decision making

Scoping Options Considered by the IPSASB

- Limited changes to existing standards (IPSAS 9, 11 and 23). Do not adopt the performance obligation approach in IFRS 15;
- IFRS 15 performance obligation approach for exchange transactions and a residual revenue standard;
- IFRS 15 performance obligation approach for exchange transactions plus those non-exchange transactions involving three parties and a clear transfer of goods and services and a residual revenue standard; and
- IFRS 15 performance obligation approach for exchange transactions plus certain other non-exchange transactions (refer Agenda Paper 8.4) and a residual revenue standard.

Preferred Options and Issues to be Addressed

[*The bullet points in this section are based on the assumption that the IPSASB proposes to adopt the use of the revenue recognition model in IFRS 15 for some revenue transactions*]

- Preferred approach to scope of standards: IFRS 15 performance obligation approach for exchange transactions plus … [*yet to be determined by the IPSASB*] and a residual revenue standard; and
- Modifications required for an IFRS 15 performance obligation approach to work in the public sector (for those transactions proposed to be within the scope of such a standard;
- Proposals to improve IPSAS 23;
- Implications for other IPSASs/ Other Projects; and
- Possibilities for the structure of standards including two revenue standards, a single revenue standard and a combined standard dealing with non-exchange expenses and revenue.

Appendix 3 Draft Outline Non-exchange Expenses Consultation Paper

This outline is preliminary. It has been included in this paper to help the IPSASB envisage what a Consultation Paper might cover.

Background/Drivers for the project

- Conceptual Framework
- Issues with Existing IPSASs – it is a long time since these standards have been reviewed
- New recognition thinking in IFRSs (and application of IFRS 15 to public sector entities in some jurisdictions)
- Desire for GFS Alignment

Importance of Standards-level Non-exchange Expense Requirements

- Types of non-exchange expenses
- Importance of information on non-exchange expenses for accountability and decision making

Alternative Approaches Considered by the IPSASB

- IFRS 15 approach for expense transactions with performance obligations and residual expense standards (with scope exclusions for transactions covered by specific IPSASs, including employee benefits, social benefits). [Note: This approach would require expansion of the non-exchange expense project to more closely align with the revenue project];
- IFRS 15 approach for non-exchange expense transactions with performance obligations and residual non-exchange expense standards; and
- An enhanced IPSAS 23 approach (mirror image of applicable non-exchange revenue standards) for non-exchange expenses.