

## Item 12 Revenue

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IPSASB Meeting

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New York, USA

## Objective of Issues Paper

### Extending IFRS 15 to a Broader Range of Performance Obligations

A discussion on issues to assist staff with development of performance obligation approach sections in the CP.

## Recap - Objective of IPSAS Revenue Project

- The aim of the project is to develop one or more IPSASs covering revenue transactions (exchange and non-exchange) in IPSASs.
- The scope of the project is to develop standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9, *Revenue from Exchange Transactions*; IPSAS 11, *Construction Contracts*; and IPSAS 23, *Revenue from Non-Exchange Transactions*.

## Recap - Issues the IPSAS Revenue Project is seeking to address

- Review of revenue standards following completion of Conceptual Framework.
- Difficulties classifying revenue transactions as exchange or non-exchange
- Current IPSAS 23 concerns in relation to timing issues arising from accounting for restrictions and conditions.
- To what extent can a IFRS 15 performance obligation approach be applied to non-exchange transactions?
- The modifications required for a IFRS 15 performance obligation type approach to be suitable for application to a wider range of revenue transactions in the public sector.

## Recap - IPSAS 23 Application Issues

- Interaction between IPSAS 23 and other IPSASs has resulted in inconsistencies in accounting for revenue transactions in the public sector.
- A need for guidance on accounting for capital grants (both the revenue and expense side).
- Determining whether a stipulation is a condition or restriction.
- Timing recognition, especially for multi-year arrangements where consideration is received upfront.

## Recap – key board deliberations to date

- Project brief on revenue approved – not a convergence project with IFRS 15. However, IFRS 15 will be used as a significant reference point.
- Issues Papers explained why a performance obligation approach was a reasonable basis for accounting for some (but not all) revenue transactions in the public sector.
- Agreed the performance obligation approach should be further explored for accounting for some public sector revenue.
- IPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers) was likely to be a useful starting point for revenue transactions with no performance obligations.
- December 2015 - agreed to explore development of a performance obligation approach that could be applied to a much broader range of revenue transactions.

## Recap – key Board deliberations to date

Staff grouped revenue transactions into three groups for the purpose of exploring the extent to which IFRS 15 could sensible be applied to public sector transactions:

Category A - Revenue transactions which are commercial in substance and a IFRS 15 approach will easily work with some public sector modifications; e.g. sale of goods or services.

Category B - Revenue transactions with performance obligations but do not have all key characteristics within the scope of IFRS 15; e.g. specific grant with performance obligations.

Category C – Non-exchange transactions that do not have a performance obligations; e.g. general operating grant with no specific performance obligations.

## Overall Objective of this Session

**Explore** further whether the performance obligation approach in IFRS 15 could be extended to a broader range of non-exchange transactions?

- Explore “Category B” transactions.
- Would this approach be appropriate, feasible?
- Would it result in accounting outcomes consistent with IPSAS Conceptual Framework?
- Would it resolve current IPSAS 23 applications issues?
- Unintended consequences or risks?



# Overall Objective of the Session

- We are seeking feedback which will be used to draft the performance obligation approach in the Consultation Paper.
- Agenda Item 12.1 considers the modifications to IFRS 15 required to account for three examples of non-exchange transactions:
  - Capital grants
  - Research grants
  - Specific grants for identifiable programs
- All three transactions do not involve the direct exchange of promised goods or services to a customer, but instead require the completion of performance obligations to a varying degree.

# Replacing IPSAS 9 and IPSAS 11 with IFRS 15

**IPSAS 9 and IPSAS 11**

**IFRS 15**

# Extending IFRS 15 to a broader range of non-exchange transactions?

**IPSAS 9 and IPSAS 11**

**IFRS 15**

**IPSAS 23**



# Spectrum of Public Sector Revenue Transactions

## Public Sector Revenue Transactions

### Category A

**Performance  
obligation to  
transfer goods  
and services**

### Category B

**Includes performance  
obligations BUT....**

**Levies**

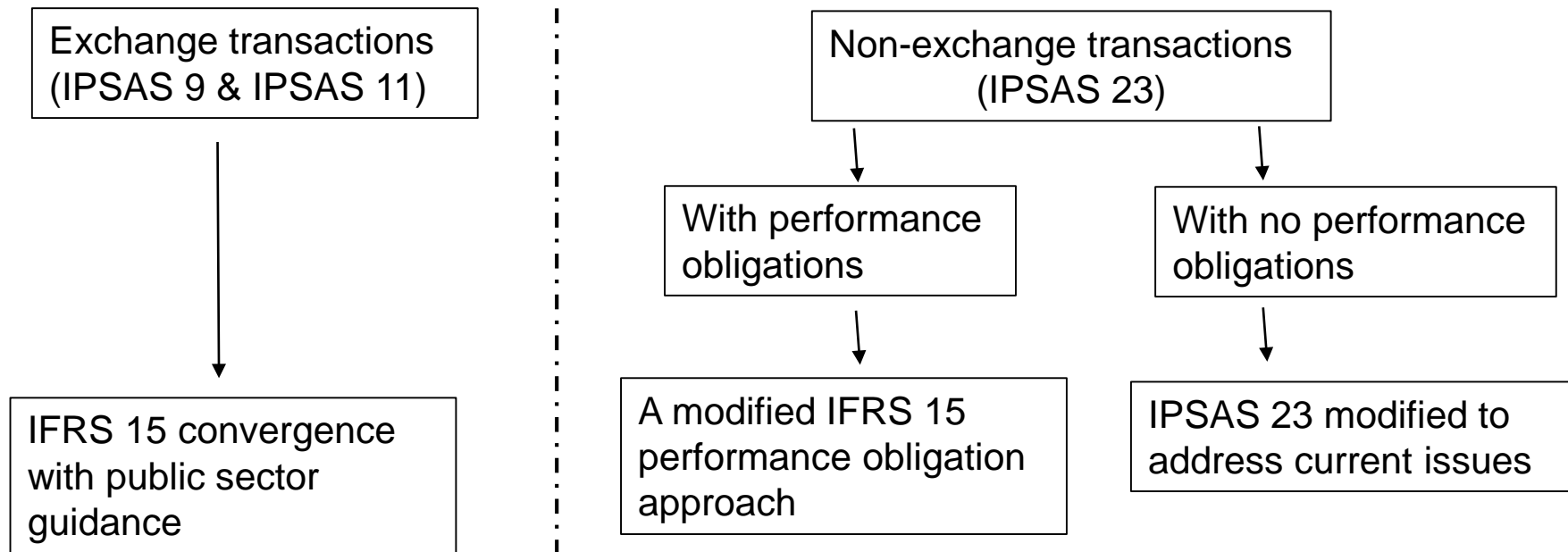
### Category C

**Taxes, fees and fines**

IFRS 15



# Potential Revenue Project Outcomes?



# Let's Explore Category B

## Examples of IPSAS 23 transactions

**Capital grants**

**Research grants**

**Grants for specific programs**

## **Modifications Required to Extend IFRS 15 performance obligation approach**

- Tables 3, 4 and 5 in Agenda Item 12.1 explore the modifications required to extend the IFRS 15 performance obligation approach.
- All three examples of revenue grant transactions highlighted significant modifications and potential application issues under a IFRS 15 performance obligation approach.

# Applying a performance obligation approach to a broader range of non-exchange transactions?

Analysis of grant transactions indicates the extension of a IFRS 15 performance approach to non-exchange is possible, **BUT**:

- scope and definitions require amendments to capture a broader range of public sector transactions;
- distinct goods and services and underlying revenue contract assumptions need to be defined for a public sector context;
- need to form a clear line/boundary between what transactions will be captured by an IFRS 15 based standard and an amended IPSAS 23;
- recognition of liabilities (consistent with Conceptual Framework?);
- specific public sector guidance required.



# Applying a performance obligation approach to a broader range of non-exchange transactions?

## Difficulties and challenges

- IFRS 15 has been designed to account for revenue contracts with customers.
- Legally enforceable obligations versus constructive obligations (non-legally binding).
- Treatment of conditions and restrictions under a performance based approach.
- IFRS 15 requirement for distinct/specific performance obligations.
- IFRS 15 requirement for transfer of goods and services.
- Convergences concerns arising from significance of modifications.

## Revenue transaction key characteristics required to apply a performance based approach

IFRS 15 Key Characteristics	Capital grant	Research grant	Specific programs	General funding grant
Contract or agreement in place (Defining binding arrangements)	✓	✓	✓	✓
Enforceable rights and obligations (Legal and non legally binding obligations)	✓	✓	✓	✓
Commercial Substance	✗	✗	✗	✗
Distinct goods and services (Sufficiently specific performance obligations)	✓	✗ / ✓	✓	✗
Transfer of goods or services (Satisfaction of performance obligations)	✓	✗ / ✓	✓	✗
Customer benefits the food or service (recipient obtains benefits from the satisfaction of performance obligations)	✓	✗ / ✓	✓	✗
Can measure satisfaction of performance obligation (the form of monitoring and accountability will need to be defined)	✓	✗ / ✓	✓	✗
Performance obligation approach appropriate?	✓	✗ / ✓	✓	✗

## Next steps – seeking feedback

### Form views

- Extending IFRS 15?  
(March 2016)
- Improvements to  
IPSAS 23?  
(June 2016)

### Consultation Paper

### EDs and IPSASs

# Matters for Consideration

## – feedback on Category B Issues

1. Does the IPSASB think it is *feasible* to modify the revenue recognition model in IFRS 15 (for example, by making satisfaction of the performance obligation the basis for revenue recognition) so that the IFRS 15 approach could be applied to:
  - Capital grants;
  - Research grants; and/or
  - Grants for specific programs?

# Matters for Consideration

## – feedback on Category B Issues

2. If the answer to question 1 is yes, does the IPSASB consider that this would be *appropriate*, having regard to the amount of work that would be required, the potential benefits for preparers and users and the definitions of elements in the Conceptual Framework?

# Matters for Consideration

## – feedback on Category B Issues

3. Which types of enforcement mechanisms does the IPSASB consider should be required in an IPSAS based on the performance obligation approach in IFRS 15? (Please note, this question is relevant regardless of views on questions 1 and 2).

## Matters for Consideration

### – feedback on drafting the Consultation Paper

4. What does the IPSASB want to say in the Consultation Paper about the application of the performance approach in IFRS 15 to a broader range of revenue transactions than envisaged by IFRS 15? Possible ways or organizing this discussion are:
  - (a) Exchange transactions (currently dealt with under IPSAS 9 and IPSAS 11);
  - (b) Non-exchange transactions involving the provision of goods and services to third parties; and
  - (c) Other non-exchange transactions with performance obligations.

# Matters for Consideration

## – papers for June Meeting

5. Does the IPSASB want the following agenda papers to be brought to the June meeting:
  - (a) Draft Consultation Paper sections on the application of the performance obligations approach to various categories of revenue;
  - (b) An issues paper on possible improvements to IPSAS 23; and
  - (c) Draft Consultation Paper section on possible improvements to IPSAS 23?



## Feedback Sought – Papers for June

Ideas for issues paper(s) on improvements to IPSAS 23:

- Transfers
  - Revisit conditions and restrictions vs Conceptual Framework
  - Presentation options
  - Other resources and obligations?
- Taxes, fees and fines?

Consultation Paper

- Chapter on performance obligation approach
- Chapter on improvements to IPSAS 23 (tentative draft?)