



# Agenda Item 11: Revenue and Non-Exchange Expenses

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IPSASB Meeting

June 21-24, 2016

Toronto, Canada

## Session Overview

- Feedback to assist in drafting Consultation Paper
  - Draft outline document (Agenda Item 11.1) to serve as roadmap for session
  - Additional Agenda Items are referenced in that document and will be used to facilitate discussion

# Consultation Paper Chapter 1

## Agenda Item 11.2: Issues Paper – Consultation Paper Scope

## Agenda Item 11.2: Consultation Paper Scope - Background

- Initial revenue project scope considerations
  - Guidance currently contained in IPSAS 9, 11, and 23
  - Statutory receivables
- Initial non-exchange expenses scope considerations
  - Transactions of resource providers
  - Not social benefits

## Agenda Item 11.2: Consultation Paper Scope – Non-Exchange Expenses versus Expenses

- Application of performance obligation approach
  - Consider for all expense transactions with performance obligations
  - Exchange and non-exchange expenses
- Exchange/non-exchange approach
  - Scope only include non-exchange expenses
  - No expansion to exchange transactions

## **Agenda Item 11.2: Consultation Paper Scope – Non-Exchange Expenses versus Expenses**

### Matter for Consideration 1

The IPSASB is asked to re-affirm the proposal to include exchange and non-exchange expenses in the performance obligation approach and only non-exchange expenses in the exchange/non-exchange approach.

## Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach

- Standards that may be affected
- Three revenue Standards
- Others
  - IPSAS 12, *Inventories*
  - IPSAS 17, *Property, Plant and Equipment*
  - IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

## **Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach**

### Matter for Consideration 2

The IPSASB is asked if it agrees with the description of guidance that may be affected if the performance obligation approach is pursued after the consultation paper.



## Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach, Transactions Not Included in the Scope

- Exchange expenses in existing IPSAB literature
  - Borrowing costs (IPSAS 5)
  - Leases (IPSAS 13)
  - Interest expense (IPSAS 16)
  - Employee benefit costs (IPSAS 25)
  - Intangible assets (IPSAS 31)

# Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach, Transactions Not Included in the Scope

- IPSASB Projects
  - Leases, including revenue and expense
  - Social benefits
  - Public sector specific financial instruments
  - Financial instruments
    - IPSAS 23 interaction
  - Public sector combinations

## Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach, Transactions Not Included in the Scope

- Exclusions from current revenue guidance
  - Leases
  - Dividends or similar distributions arising for equity method investments
  - Gains from sale of property, plant, and equipment
  - Insurance contracts
  - Changes in fair value of financial assets and financial liabilities

## Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach, Transactions Not Included in the Scope

- Exclusions from current revenue guidance (continued)
  - Change in the value of other current assets
  - Initial recognition of, and changes in, the fair value of biological assets related to agricultural activity
  - Initial recognition of agricultural produce
  - Extraction of mineral ores
  - Entity combinations

# Agenda Item 11.2: Consultation Paper Scope – Performance Obligation Approach, Transactions Not Included in the Scope

## Matter for Consideration 3

The IPSASB is asked if it agrees with the description of transactions that are proposed to be excluded from the scope of the consultation paper.



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# Consultation Paper Chapter 1

## Agenda Item 11.3: Chapter 1 Draft

## Agenda Item 11.3: Draft Chapter 1

- Level of detail
- Include descriptions of the two approaches
- Consideration of overall length of document





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# Revenue and Non-Exchange Expenses

## Agenda Item 11.5

## Draft Consultation Paper – Chapter 2

Anthony Heffernan

IPSASB Meeting

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## Objective of Agenda Paper 11.5

To seek feedback from the IPSASB on the draft Consultation Paper – Chapter 2:

Plan for IPSASB discussion:

- Recap – Project objectives and key deliberations to date
- Overview of CP Chapter 2 objectives and structure
- Opening comments on feedback received
- Consideration of IFRS 15 characteristics re-expressed for the public sector
- Matters for IPSASB Consideration
- Application of approaches to examples – Agenda Paper 11.5.1

# The IPSASB Revenue Project

The IPSASB Revenue Project has two main objectives:

1. Consider the extent to which the IFRS 15 performance obligation approach should be applied in the public sector:
  - Maintain convergence with IASB standards, to the extent appropriate
  - The “new thinking” within IFRS 15 provides a reference point for which to develop a public sector performance obligation approach
2. Responding to IPSAS 23 implementation issues:
  - Exchange/non exchange classification
  - Recognition of revenue in arrangements with restrictions versus conditions

# Objective of CP Chapter 2

## Performance Obligation Approach

### Objective of the CP Chapter 2:

- Explore how a performance obligation approach could be applied to improve the accounting for revenue and expense transactions in the public sector
- Obtain constituent views on the appropriateness of using a performance obligation approach for the recognition of revenue and expense transactions in the public sector

# Objective of CP Chapter 2

## Performance Obligation Approach

CP Chapter 2 seeks feedback on two key questions:

- Is it appropriate to introduce a converged IFRS 15 standard into IPSASs to account for revenue transactions in the public sector that are consistent in substance and nature with the intended scope of IFRS 15?

**Described as Category A transactions**

- Is it appropriate to consider re-expressing and extending the IFRS 15 performance obligation approach, to allow the approach to be extended to a broader range of public sector revenue and expense transactions?

**Described as Category B transactions**

# Revenue Project

## 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 was likely to be a useful starting point for revenue transactions with no performance obligations

# Revenue Project recap

## Key board deliberations to date

- Agreed to develop a performance obligation approach that could be applied to a broader range of public sector revenue transactions
- Agreed the three categories A, B, C used in the issues papers to describe different classifications of revenue and expense transactions, should also be used to describe ideas and approaches within the CP
- Considered potential re-expression of IFRS 15 characteristics for the purpose of developing a public sector performance obligation approach



# Overview of CP Chapter 2

## Outline of chapter

- Introduction and chapter objectives
- Overview of IFRS 15 performance obligation approach
- Application of a performance obligation approach to public sector revenue transactions
  - Category A
  - Category B
  - Category C
- Application of a performance obligation approach to public sector expense transactions
  - Category A
  - Category B
  - Category C
- Advantages and disadvantages of performance obligation approach

# Matters for IPSASB Consideration - 1

1. Does the IPSASB consider the level of detail provided in Chapter 2, under the section, Overview of the IFRS 15 Performance Obligation Approach (paragraphs 2.21 – 2.39), is appropriate?

Alternative options:

- Move to Chapter 1 – Introduction
- Include detail in a separate Appendix

## Overview of CP Chapter 2

Explores the extent to which the IFRS 15 performance obligation approach could be applied to public sector transactions. Considers three categories of transactions:

Category	Characteristics	Approach
A	Revenue transactions that fall within the scope of IFRS 15	IFRS 15 performance obligation approach
B	Revenue and expense transactions which involve the satisfaction of performance obligations, but do not necessarily contain all the characteristics of a transaction within the scope of IFRS 15	Public sector performance obligation approach
C	Revenue and expense transactions which do not involve the satisfaction of performance obligations	Residual IPSAS 23 approach

Current classification	Exchange	Non-Exchange	
CP Chapter 2 classification	Performance obligation		Non-Performance obligation
Approaches	Category A	Category B	Category C
	Converged IFRS 15	Public Sector Performance Obligation Approach	IPSAS 23 based standard
Description (in summary)	Sale of goods or services on commercial terms	Satisfaction of performance obligations but does not include all the characteristics of a commercial based transaction	No performance obligations
Example	e.g. fees from professional services provided at market rates	e.g. fees in exchange for the delivery of subsidised health services	e.g. taxes, transfers, grants with no restrictions over use

## Opening comments on draft CP Chapter 2

- First draft
- Remained faithful to the CP outline presented at the IPSASB Meeting March 2016
- Challenge of discussing revenue and expenses within the same chapter
- Tension between IFRS 15 convergence project versus developing a public sector performance obligation approach
- Does the structure built around Category A, B and C work?
- Category C in the *Performance Obligation Approach* Chapter?
- There are some SMCs in draft, but we expect to add more
- Tone and language used – CP versus ED

## Opening comments on draft CP Chapter 2

- Stepping back
  - Would the application of the Category A, Category B or Category C revenue recognition approach to the same transaction provide for different outcomes?
  - The revenue recognition outcome will in many cases be the same for transactions which involve the satisfaction of performance obligations which are considered enforceable, because the **performance obligation approach** (Category A and Category B) and the IPSAS 23 **present obligation approach** (Category C) are in principal very similar.
  - However, the objective of the three category approach remains important:
    - Category A – to achieve IFRS convergence for like-for-like transactions
    - Category B – extend the application of the comprehensive IFRS 15 approach
    - Category C – maintain an appropriate level of guidance for public sector transactions with no performance obligations.

## Comments on terminology

Resource provider	A party who has provided consideration to a resource recipient in exchange for the resource recipient satisfying performance obligations.
Resource recipient	A party who has received consideration from a resource provider in exchange for the satisfaction of performance obligations.
Resource beneficiary	Entity or individuals who receive the direct benefit from the satisfaction of the performance obligations

## Comments on terminology

Public sector transactions may involve:

- Two party arrangements      The resource recipient delivers goods or services to the resource provider in exchange for consideration (Category A) ; or  
  
The resource recipient receives consideration from the resource provider in exchange for satisfaction of performance obligations, and the resource recipient receives the direct benefit of those agreed performance obligations , e.g. capital grants (Category B).
- Three party arrangements      The resource provider provides consideration to the resource recipient in exchange for the satisfaction of performance obligations which directly benefit the resource beneficiary (Category B)



## Comments on terminology

- “Modified performance obligation approach” changed to “public sector performance obligation approach”
- Describing revenue inflows – consideration received, resource inflows or funding received?
- Reference to “delivery/transfer of goods or services” changed to “satisfaction of performance obligations”.

# Development of the Public Sector Performance Obligation Approach (Category B)

The basis for developing a public sector performance obligation approach (Category B) has been explored by considering the extent to which the key characteristics assumed in a IFRS 15 transaction could be **re-expressed and extended** to capture a broader range of transactions.

Let's consider the re-expressed characteristics

## CP Chapter 2 – Performance Obligation Approach

Key Characteristics of Category A and Category B revenue transactions

Category A: IFRS 15 performance obligation approach	Category B: Public sector performance obligation approach
Defined as a revenue transaction	Defined as a revenue transaction
Requires the delivery of goods and services to a customer	Requires the satisfaction of performance obligations
Rights and obligations established through contractual arrangement	Rights and obligations established through legal and non-legally binding arrangements
Rights and obligations are enforceable	Rights and obligations are enforceable

## Chapter 2 – Performance Obligation Approach

Key Characteristics of Category A and Category B revenue transactions (continued)

Category A: IFRS 15 performance obligation approach	Category B: Public sector performance obligation approach
Promised goods or services are specified in sufficient detail to enable each distinct (separately identifiable) performance obligation to be identified	Agreed performance obligations are identifiable and specific
The transaction price can be allocated to each distinct performance obligation	The consideration provided can be allocated to each identifiable and specific performance obligation

## Chapter 2 – Performance Obligation Approach

Key Characteristics of Category A and Category B revenue transactions (continued)

Category A: IFRS 15 performance obligation approach	Category B: Public sector performance obligation approach
The contract has commercial substance	The consideration provided in exchange for satisfaction of performance obligations has been determined by giving consideration to nature, cost or volume of agreed performance obligations
	The amount of funding is conditional on the satisfaction of performance obligations

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: The transaction is defined as a revenue transaction  
(Table 1 - paragraph 2.73)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
The scope includes only <i>revenue</i> transactions.  Revenue: Income arising in the course of an entity's ordinary <i>activities</i>	The scope includes only <i>revenue</i> transactions  Revenue: Increases in the net financial position of the entity, other than increases arising from ownership contributions

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: Basis for establishing agreed performance obligations  
(Table 2 - paragraph 2.78)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
The rights and obligations associated with a revenue transaction are established through legally enforceable contracts with customers	The rights and obligations associated with a revenue transaction are established through: (a) Legal and non-legally binding arrangements; and (b) Performance obligations established by legislation or regulation

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: The arrangement requires the satisfaction of performance obligations  
(Table 3 - paragraph 2.83)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
The contractual arrangement requires the delivery of goods or services to a customer	<p>The arrangement requires the satisfaction of performance obligations, which either benefit the:</p> <ul style="list-style-type: none"><li>(a) Resource provider (funder) directly through the delivery of goods or services; or</li><li>(b) Intended beneficiaries of agreed performance obligations, as specified by the resource provider</li></ul>



# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: The performance obligations are enforceable  
(Table 4 - paragraph 2.94)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
<p>The enforceability of the rights and obligations in a contract is a matter of law</p> <p>Contracts can be written, oral or implied by an entity's customary business practice, published policies or specific statements</p>	<p>Enforceability of rights and obligations in an arrangement are established through legal or equivalent means (i.e. legal and non-legally binding arrangements)</p> <p>Guidance is required to clarify the types of legal and non-legal mechanisms considered appropriate to demonstrate enforceability</p>

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: The performance obligations are identifiable and specific - (Table 5 - paragraph 2.104)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
<p>A performance obligation is distinct if both the following criteria are met:</p> <ul style="list-style-type: none"><li>(a) The customer can benefit from the good or service on its own or together with other resources that are readily available; and</li><li>(b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract</li></ul>	<p>A performance obligation is identifiable and specific if the following criteria are met:</p> <ul style="list-style-type: none"><li>(a) The performance obligation is separately identifiable from other performance obligations within the arrangement;</li><li>(b) The resource recipient can determine when the performance obligation has been satisfied; and</li><li>(c) The resource recipient can demonstrate to the resource provider the performance obligation has been satisfied</li></ul>

## Matters for IPSASB Consideration - 2

1. Does the IPSASB agree with use of the term identifiable and specific?
2. Does the IPSASB agree with the criteria for determining when a performance obligation is defined as identifiable and specific (as provided in the summary table, paragraph 2.104)?

Is the criteria too restrictive or additional criterion/guidance recommended?

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: A linkage can be demonstrated between the amount of consideration and the agreed performance obligations. (Table 6 - paragraph 2.116)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
The scope includes contracts which have 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).	<p>The scope of the public sector performance obligation approach is limited to arrangements where the amount of funding:</p> <ul style="list-style-type: none"><li>(a) Has been determined by giving consideration to the nature, cost, value or volume of the promised goods and services to be delivered; and</li><li>(b) Is conditional on the delivery of promised goods or services.</li></ul>

## Matters for IPSASB Consideration - 3

2.107 The IPSASB considers it appropriate that the public sector performance obligation approach continues to be applicable to arrangements where the amount of funding is determined by the resource provider giving consideration to level of agreed goods or services to be delivered.

1. Does the IPSASB agree with the CP approach taken in regards to above, or would you suggest other views be expressed?

Other jurisdictions have taken the view that a performance obligation approach is only appropriate when “the value of agreed services is approximately equal to the funding”. The use of the term “approximately equal” would potentially limit the scope of a public sector performance obligation approach to only exchange transactions.

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: The consideration provided can be allocated each identifiable and specific performance obligation. (Table 7 - paragraph 2.126)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
The transaction price is required to be allocated to each district performance obligation approach on the basis of the relative stand-alone selling price of each district performance obligation	<p>The total amount of agreed consideration provided in exchange for the satisfaction of performance obligations is allocated to each identifiable and specific performance obligation on an <del>estimated cost of delivery basis</del> a <b>cost of fulfilment basis</b>.</p> <p>If a revenue transaction includes an identifiable donation component this should be excluded from the total amount of funding allocated across performance obligations</p>

## Matters for IPSASB Consideration - 4

1. Does the IPSASB agree the “estimated cost of delivery” is an appropriate method for allocating the total amount of funding across identifiable and specific performance obligation?
2. Should the CP explore further other options?
3. If yes, what options would you suggest?

# Re-expression of IFRS 15 performance obligation characteristics

Characteristic: Revenue is recognised by reference to when (or as) performance obligations are satisfied. (Table 8 - paragraph 2.133)

The IFRS 15 Performance Obligation Approach	Public Sector Performance Obligation Approach
An entity recognizes revenue when (or as) it satisfies performance obligations, which is when control of the promised goods or services are transferred to the customer	<p>A resource recipient recognizes revenue when (or as) it satisfies each identifiable and specific performance obligations; this will occur when:</p> <ul style="list-style-type: none"><li>(a) The resource recipient has the ability to demonstrate to the resource provider the performance obligation has been satisfied; and</li><li>(b) The resource recipient has the ability to demonstrate to the resource provider the intended beneficiaries of the performance obligations have the ability to benefits from the delivered performance obligations</li></ul>



## Matters for IPSASB Consideration - 5

1. Does the IPSASB agree with replacing the trigger for revenue recognition from when (or as) the entity “transfers control of a good or service” to when (or as) the entity “satisfies the promised performance obligations”?

If not, how would you suggest the IFRS 15 principle be re-expressed for the public sector?

2. In the summary table the public sector performance obligation approach requires two criteria to be met before revenue can be recognised. We are of mixed views if the second criterion is required:

*The resource recipient has the ability to demonstrate to the resource provider the intended beneficiaries of the performance obligations have the ability to benefit from the delivered performance obligations.*

Does the IPSAB consider the two criterion should be retained?

## Matters for IPSASB Consideration - 6

1. Do you consider the re-expressed characteristics provided under paragraph 2.58 (and in subsequent discussion) provide an appropriate and feasible basis for developing a public sector performance obligation approach?
2. Are there any further modifications or guidance you would suggest be considered to allow the performance obligation approach to be extended to a broader range of public sector transactions?

## Matters for IPSASB Consideration - 7

1. Does the IPSASB consider Chapter 2 - Performance Obligation Approach, should include the detailed discussion on potential modifications to IPSAS 23, or should these be addressed in another section of the CP?

## Next Steps

- Updating draft CP Chapter 2 in response to feedback from the IPSASB and CAG
- Consideration of revised draft CP Chapter 2 by TRG
- A revised draft of CP Chapter 2 tabled for approval at the IPSASB September 2016 Meeting



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# **Agenda Item 11.5.1**

## **Performance Obligation Approach**

### **Discussion of Revenue Examples**

Anthony Heffernan

Revenue and Non-Exchange Expenses Project

IPSASB Meeting

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## Objective of Agenda Paper 11.5.1

- Present some examples of Category A and B transactions to:
  - Consider further the application of a performance obligation approach in the public sector, as provided for in CP Chapter 2
  - Highlight the distinction between Category A and Category B transactions
  - Explore the flexibility and appropriateness of the public sector performance obligation approach (Category B), as provided for the draft CP Chapter 2

## Category A Revenue Example – Back office services

### Back office services example - paragraph 5

- Public sector Entity X enters into a three year contract to provide back office services to public sector Entity Y
- Entity Y will pay Entity X a fee of CU120,000 per annum, payable quarterly in advance
- The fee is based on a market rate for back office services

Does the transaction meet the criteria to apply a IFRS 15 performance obligation approach (Category A)?



## Category A Revenue Example – Back office services

Consideration of Category A characteristics:

Characteristics of a IFRS 15 performance obligation approach	Application to example
Transaction is defined as a revenue transaction	Yes
Performance obligations are established through legal and non-legally binding arrangements	Yes
Requires the delivery of goods or services to a customer or resource recipient	Yes
The arrangement is enforceable	Yes Assumed through the contract.

## Category A Revenue Example – Back office services

Characteristics of a IFRS 15 performance obligation approach	Application to example
Goods or services are specified in sufficient detail	<b>Yes</b> One performance obligation identified, continuous back office services
The transaction price can be allocated to each performance obligation	<b>Yes</b> One performance obligation identified

The example contains all the key characteristics within the scope of IFRS 15, and therefore applying a IFRS 15 revenue recognition model is considered appropriate.

## Category A Revenue Example – Back office services

### Revenue recognition under the IFRS 15 performance obligation approach

- Entity Y simultaneously receives and consumes the benefits provided by the delivery of back office services by Entity X
- The revenue earned from providing back office services is recognised over time as performance obligations are satisfied
- Revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation

# Category A Revenue Example – Back office services

## Matters for Consideration

1. Does the IPSASB agree this shared services example is a Category A transaction and it would be a useful example in the CP Appendix?



## Category A Revenue Example – Passport issuance

### Passport issuance example - paragraph 6

- A citizen pays a one-off fee of CU200 to a public sector entity to have their passport renewed
- The fee is paid in advance when the citizen applies for a new passport
- The fee of CU200 is based on the public sector entity recovering its cost for producing and approving the passport
- A new passport is shipped generally within 60 days from the date of receipt of application
- If the application is declined the fee of CU200 is not refunded

## Category A Revenue Example – Passport issuance

Consideration of Category A characteristics:

Characteristics of a IFRS 15 performance obligation approach	Application to example
Transaction is defined as revenue transaction	Yes
Performance obligations are established through legal and non-legally binding arrangements	Yes Rights and obligations are outlined in the application form
Requires the transfer of goods or services to a customer or resource recipient (defined as a transfer of control)	Yes Could argue whether it's a good or service?

## Category A Revenue Example – Passport issuance

Characteristics of a IFRS 15 performance obligation approach	Application to example
The arrangement is enforceable	<b>Yes</b> Assumed there is binding arrangement, may require further assessment of whether the citizen has a mechanism in which to enforce the agreement
Goods or services are specified in sufficient detail	<b>Yes</b> Delivery of passport or declined notice
The transaction price can be allocated to each performance obligation	<b>Yes</b> One performance obligation identified

The example contains all the key characteristics within the scope of IFRS 15, and therefore applying a IFRS 15 revenue recognition model is considered appropriate.

## Category A Revenue Example – Passport issuance

Revenue recognition under the IFRS 15 performance obligation approach:

- The fee of CU200 is initially recognised as a liability, until the passport (or communication of application denial) is delivered to the passport applicant
- Revenue is recognised at a point in time, being when the passport (or communication of application denial) is delivered and control is transferred to the citizen



## Category A Revenue Example – Passport issuance

### Matters for Consideration

2. Does the IPSASB agree this government fee (passport application fee) transaction is a Category A transaction and it would be a useful example to include in the CP Appendix?



## Category B Revenue Example – Vaccination Grant

### Vaccination grant example – paragraph 9

- Grant from a central government to a local government entity to subsidize a portion of a vaccination
- The central government will pay 50 percent of the actual costs, up to an amount of CU10 per vaccination
- The amount payable will be based on the actual number of vaccinations provided
- The central government will pay 100% of the grant in advance, with the expectation all 500 vaccinations will be administered in the next financial year
- Funding is required to be returned based on the value of undelivered vaccinations

## Three-Party Transaction – Vaccination Grant



## Category B Revenue Example – Vaccination Grant

### Category A versus Category B

In this example you could argue not all the characteristics of the IFRS 15 performance obligation approach are satisfied:

- The individuals receiving the vaccinations have not been identified (IFRS 15 requires the identification of a customer)
- The central government (resource provider) does not receive the direct benefit of the vaccinations and does not obtain control of the vaccinations (IFRS 15 is built on the key principle of recognizing revenue when control of the goods or services is transferred to the resource provider)
- The value of agreed services is not approximately equal to the agreed consideration, putting the commercial substance of the transaction in question (IFRS 15 assumes the value of agreed services is approximately equal to the agreed consideration)

## Category B Revenue Example – Vaccination Grant

Consideration of Category B characteristics:

Characteristics of a public sector performance obligation approach	Application to example
Transaction is defined as a revenue transaction	<b>Yes</b> Not an ownership contribution
The arrangement involves the satisfaction of performance obligations	<b>Yes</b> The grant has been provided on the condition vaccinations be administered
Performance obligations are established through a legal or non-legally binding arrangement	<b>Yes</b> Not necessarily a contract arrangement, but assumed there is a written agreement between the central government and local government

## Category B Revenue Example – Vaccination Grant

Characteristics of a public sector performance obligation approach	Application to example
The arrangement is enforceable.	<p><b>Further consideration of facts may be required</b></p> <p>Requires consideration of both the intent and the ability of the resource provider to enforce the arrangement</p> <p>The ability to enforce the performance obligations will require consideration of the enforcement mechanisms available to the central government</p> <p>The fact the agreement requires return of funding based on undelivered vaccinations is a key indicator of an entity's ability to enforce the satisfaction of performance obligations</p>

## Category B Revenue Example – Vaccination Grant

Characteristics of a public sector performance obligation approach	Application to example
The resource provider or the intended beneficiaries receive the benefits from the satisfaction of the performance obligations	<b>Yes</b> The grant has been provided on the condition vaccinations be administered to citizens
The consideration can be allocated to each identifiable and specific performance obligation	<b>Yes</b> The agreement is specific in terms of the quantity of vaccinations to be delivered
The consideration has been determined by the resource provider after giving consideration to the nature, cost or volume of agreed performance obligations	<b>Yes</b> The grant amount is based on the number of vaccinations delivered

## Category B Revenue Example – Vaccination Grant

Characteristics of a public sector performance obligation approach	Application to example
The exchange of the consideration is conditional on the satisfaction of agreed performance obligations	<b>Yes</b> The agreement requires return of funding based on undelivered vaccinations

The example contains all the key characteristics (assuming enforceability can be demonstrated) within the public sector performance obligation approach scope (as provided for in CP Chapter 2), and therefore applying a performance obligation revenue recognition model may be appropriate.



## Category B Revenue Example – Vaccination Grant

- Revenue recognition under the public sector performance obligation approach (Category B):
  - Each individual vaccination is defined as a identifiable and specific performance obligation
  - The grant of CU2,500 received in advance will be initial recorded as a liability
  - Revenue is recognised based on the number of vaccination administered,  $CU10 \times 50\% \times \# \text{ of vaccinations administered}$

## Category B Revenue Example – Vaccination Grant

### Matters for Consideration

3. Does the IPSASB agree this vaccination example is a category B transaction and it would be a useful example in the CP Appendix?
4. Does the IPSASB have any views on which vaccination fact pattern discussed in the Agenda Paper (e.g. funds paid in advance or arrears) would be more effective in demonstrating the public sector performance obligation approach described in Chapter 2?
5. Does the IPSASB think that agreements where performance obligations are clearly specified, but there is no return condition specified should be considered a Category B transaction?



## Category B Revenue Example – Research Grant

### Research grant example - paragraph 14

- A government agrees to fund a five year research project, to be carried out by a public sector university
- The research agreement specifies how the research will be carried out
- The agreement commences on the effective date and terminates at the completion of the project
- CU100,000 is provided at the start of each year
- The public sector university does not have to refund any unspent money
- Authority for research funding is appropriated each year
- The university has the right to publish the results of the research

## Category B Revenue Example – Research Grant

### Category A versus Category B

- In this example not all the characteristics of the IFRS 15 performance obligation approach are satisfied:
  - The university receives the direct benefit of the research activities, not the government (the resource provider)
  - The agreement does not require the university to transfer control of the research to the government
  - The government does not appear to have a right to direct the benefits of the research to the wider community
- While the transactions does not appear to fall within the scope of IFRS 15 (Category A), the arrangement does require the satisfaction of performance obligations (the completion of research activities).

## Category B Revenue Example – Research Grant

Consideration of Category B characteristics:

Characteristics of a public sector performance obligation approach (Category B Scope)	Application to example
Transaction is defined as revenue transaction	Yes Not an ownership contribution
The arrangement involves the satisfaction of performance obligations	Yes The grant has been provided on the condition that research activities be completed
Performance obligations are established through a legal or non-legally binding arrangement	Yes There is a written agreement between the government and the university

## Category B Revenue Example – Research Grant

Characteristics of a public sector performance obligation approach	Application to example
The arrangement is enforceable.	<p><b>Further consideration of facts may be required</b> Requires consideration of both the intent and the ability of the resource provider to enforce the arrangement.</p> <p>The ability to enforce the performance obligations will require consideration of the enforcement mechanisms available to the government.</p> <p>The fact the agreement does not require the return of any unspent funding provides doubt over whether the annual performance obligations are enforceable (especially when annual funding is provided in advance).</p>

## Category B Revenue Example – Research Grant

Characteristics of a public sector performance obligation approach	Application to example
The resource provider or the intended beneficiaries receive the benefits from the satisfaction of the performance obligations	<b>Further consideration of facts may be required</b> The public sector performance obligation approach will require a degree of flexibility in regards to who receives the benefits to capture this example
The consideration can be allocated to each identifiable and specific performance obligation	<b>Further consideration of facts may be required</b> Is the performance obligation the completion of research activities over time or the delivery of the annual report summarizing the year's work?  Will also depend on the detail of agreed activities and milestone achievements

## Category B Revenue Example – Research Grant

Characteristics of a public sector performance obligation approach	Application to example
The consideration has been determined by the resource provider after giving consideration to the nature, cost or volume of agreed performance obligations	<b>Further consideration of facts may be required</b> Requires an assessment of the government's understanding of the expected activities and outputs.
The exchange of the consideration is conditional on the satisfaction of agreed performance obligations	<b>No</b> The university does not have to refund any unspent money

The example does not appear to contain all the key characteristics within the scope of the public sector performance obligation approach (as provided for in Chapter 2), and therefore applying a performance obligation revenue recognition model may not be appropriate.



## Category B Revenue Example – Research Grant

- The recognition of revenue will depend on whether the transaction is classified as a Category B or Category C transaction
  - Category B transaction: A performance obligation approach may allow for revenue to be spread and recognised each month, as research activities are conducted.
  - Category C transaction: The CU100,000 received at the beginning of each year will likely be classified as a non-exchange transactions with restrictions over use (but not conditions), and therefore is recognised as revenue when the full amount is deemed receivable.

## Category B Revenue Example – Research Grant

### Matters for Consideration

6. Does the IPSASB agree this university research example is a Category B transaction and would it be a useful example in the CP appendix?
7. Does the IPSASB have any views on which university fact pattern discussed in the agenda paper (e.g. funds paid in advance or arrears) would be more effective in demonstrating the public sector performance obligation approach described in Chapter 2?

## Category B Revenue Example – Grant for a Specific Program

### Grant for a specific program example - Paragraph 18

- A central government provides a grant to a local government health provider
- The agreement requires the funds to be used to support the provision of dental services
- Funds not used in this manner must be returned to the central government
- The health provider must provide periodic reporting to the central government of the nature, cost and volume of service provided
- No specific goods or services are specified
- CU200,000 is provided per annum, payments spread evenly over each month
- The central government is authorized to provide the grant

# Category B Revenue Example – Grant for a Specific Program

## Category A versus Category B

- In this example not all the characteristics of the IFRS 15 performance obligation approach are satisfied:
  - The recipients of the dental services receive the direct benefit of the services delivered by the health provider, not the central government (the resource provider)
  - The agreement does not require the health provider to transfer control of goods or services to the central government
  - The commercial substance of the transaction could be questioned, due to the level of funding not being adjusted for the level of outputs actually delivered by the health provider
- While the transactions does not appear to fall within the scope of IFRS 15 (Category A), the arrangement does require the satisfaction of performance obligations (the delivery of dental services).

## Category B Revenue Example – Grant for a Specific Program

Characteristics of a public sector performance obligation approach	Application to example
Transaction is defined as revenue transaction	<b>Yes</b> Not an ownership contribution
The arrangement involves the satisfaction of performance obligations	<b>Yes</b> The grant has been provided on the condition that dental services be delivered
Performance obligations are established through a legal or non-legally binding arrangement	<b>Yes</b> We assume there is a written agreement between the central government and the local government health provider

## Category B Revenue Example – Grant for Specific Program

Characteristics of a public sector performance obligation approach	Application to example
The arrangement is enforceable.	<p>Yes</p> <p>Requires consideration of both the intent and the ability of the resource provide to enforce the arrangement.</p> <p>The ability to enforce the performance obligations may require consideration of the enforcement mechanisms available to the central government.</p> <p>The fact the agreement requires return of funding not used on the specific program is a key indicator of an entity's ability to enforce satisfaction of performance obligations.</p>

## Category B Revenue Example – Grant for specific program

Characteristics of a public sector performance obligation approach	Application to example
The resource provider or the intended beneficiaries receive the benefits from the satisfaction of the performance obligations	<b>Yes</b> The central government has provided the funding for the purpose of benefiting the citizens (improving dental health)
The consideration can be allocated to each identifiable and specific performance obligation	<b>Yes</b> The central government has not specified any specific goods or services to be delivered, or separately identifiable performance. Therefore it can be argued there is one single performance obligation.

## Category B Revenue Example – Grant for Specific Program

Characteristics of a public sector performance obligation approach	Application to example
The funding has been determined by the resource provider after giving consideration to the nature, cost or volume of agreed performance obligations	<b>Further consideration of facts may be required</b> The amount of funding does not change as a result of the number of patients treated.  The fact pattern highlights the schedule of payments is broadly in line with the costs of the health provider.
The exchange of the consideration is conditional on the satisfaction of agreed performance obligations	<b>Yes</b> Funds not used on the provision of dental services must be returned.

Further consideration is required of the need to demonstrate the funding has been determined by the resource provider after giving consideration to the nature, cost or volume of agreed performance, to determine if a performance obligation revenue recognition model would be appropriate.



## Category B Revenue Example – Grant for specific program

- The recognition of revenue will depend on whether the transaction is classified as a Category B or Category C transaction:
  - Category B transaction: A performance obligation approach may allow for revenue to be spread and recognised each month, as dental services are delivered (and periodic reports are provided)
  - Category C transaction:
    - The CU200,000 is classified as a non-exchange transactions with conditions over use, which may allow for revenue to recognised based on the timing of schedule payments; or
    - The CU200,000 is recognised as revenue when the amount becomes receivable from the central government, because the conditions are not specific and substantive



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# Agenda Item 11.7

## IPSAS 23 Directions for September

Anthony Heffernan

IPSASB Meeting

June 21-24, 2016

Toronto

# Overview of IPSAS 23

- Accounting for non-exchange transactions in the public sector
- Provides guidance on when an inflow of resources gives rise to the recognition of an asset
- When an asset is recognised, revenue is recognised to the extent that a liability is not also recognised
- A liability is recognised to the extent present obligations associated with the inflow of resources have not been satisfied
- A present obligation is recognised when the arrangement requires an entity to use the inflow of resources for a particular purpose (performance obligations), and the stipulation is defined as a condition

## Objective of Agenda Item

Revenue Project Objective:

Responding to IPSAS 23 implementation issues

Seeking IPSASB feedback and guidance on CP direction:

- Which IPSAS 23 related issues need to be addressed in CP?
- How much work does the IPSASB want done on those issues?
- What potential modifications to IPSAS 23 should be considered by the CP?

# IPSAS 23 Implementation Issues

## Key questions to be addressed:

- Does the IPSASB consider IPSASB 23 is broken?
  - Many constitutes do not like the outcomes provided by IPSAS 23 for the recognition of revenue
  - However conceptually the Standard appears consistent with the IPSASB's Conceptual Framework
- Depending of where the IPSASB land, potential modifications to IPSAS 23 could take the following forms:
  - Relaxing, what some currently feel, are the strict current revenue recognition requirements
  - Providing additional guidance and clarification in regards to current requirements

# IPSAS 23 implementation issues

IPSAS 23 implementation issue	Potential response in CP
<p>Exchange/non exchange classification difficulties</p> <p>A challenge in practice is defining when a transaction involve the transfer of “approximately equal value”:</p>	<ul style="list-style-type: none"><li>• Provide additional guidance and support to current classification definitions</li><li>• Modify classification definitions to allow a broader range of transactions with performance obligations to be classified as exchange transactions</li><li>• Replace the exchange/non exchange classification with a performance obligation/non-performance obligation approach (Chapter 2 of CP)</li></ul>

# IPSAS 23 implementation issues

IPSAS 23 implementation issue	Potential response in CP
<p>Interaction between IPSAS 23 and other standards</p> <p>Specific interactions:</p> <ul style="list-style-type: none"><li>• Recognition of a financial liability as a result of a non-exchange revenue transaction</li><li>• Finance leases and non-exchange component</li><li>• Non-exchange revenue arising from rights to use assets</li></ul>	<ul style="list-style-type: none"><li>• The CP could highlight an objective at the standard setting phase of the project is to seek opportunities to improve the interaction between IPSAS 23 and other standards</li><li>• We do not believe these require detailed discussion in the CP</li><li>• The CP could list the current interaction weaknesses identified and ask for constituent feedback if there are others they would like addressed</li></ul>



# IPSAS 23 implementation issues

IPSAS 23 implementation issue	Potential response in CP
<p>Services in kind</p> <p>IPSAS 23 does not require the recognition of revenue for services in kind, but these could be a significant part of the resources used by an entity</p>	<ul style="list-style-type: none"><li>• Seek feedback in CP on whether recognition of some services in kind should be required</li><li>• Should the CP include a discussion on the accounting for service in kind taking into account the IPSASB's Conceptual Framework?</li><li>• Should the CP include a preliminary view?</li></ul> <p>How should staff move this matter forward:</p> <ul style="list-style-type: none"><li>• Complete additional analysis and develop a issues paper</li><li>• Bring back to the IPSASB in the form of draft CP</li></ul>

# IPSAS 23 implementation issues

IPSAS 23 implementation issue	Potential response in CP
<p>Capital grants</p> <p>There are differing views on how to account for capital grants and a desire for consistent guidance</p>	<p>The CP will include a discussion on accounting for capital grants under the performance obligation approach</p> <p>Include GFS considerations?</p> <p>IPSASB September Meeting</p> <ul style="list-style-type: none"><li>• Capital Grants Issues Paper</li><li>• Draft CP sections on capital grants</li></ul>

# IPSAS 23 implementation issues

IPSAS 23 implementation issue	Potential response in CP
<p>Tax revenue issues:</p> <ul style="list-style-type: none"><li>(a) Whether to define taxes</li><li>(b) Taxable event</li><li>(c) Deciding at what point tax revenue should be recognized</li><li>(d) The need for information on total taxes levied for accountability purposes</li></ul>	<p>The IPSASB has previously agreed that tax revenue issues should be considered in the revenue project.</p> <p>Should tax revenue and expenditure issues be included in the CP, or carved out as a separate project?</p> <p>How much work does the IPSASB want done on researching and considering amendments to the accounting for tax revenue and expenditure?</p>

# IPSAS 23 implementation issues

IPSAS 23 implementation issue	Potential response in CP
Time requirements  Recognition of revenue in multi –period funding arrangements	<ul style="list-style-type: none"><li>• Consideration of other resources and other obligations be considered (i.e. recognition of deferred flows) – Agenda Item 11.6</li><li>• Presentation options for disclosing how revenue inflows relate to specific periods</li><li>• Use of a performance obligation approach to provide a framework for the recognition of non-exchange revenue transactions with performance obligations (a requirement to provide goods or services to the resource provider or intended beneficiaries)</li></ul>

# IPSAS 23 Application Issues

## Timing restrictions over use:

- Multi-period non-exchange revenue arrangements are a key concern
- IPSAS 23 requires immediate recognition of non-exchange revenue unless there are unfulfilled conditions
- A condition is a stipulation that requires the revenue to be used for a specific purpose or returned
- If there is no refund requirement, IPSAS 23 generally requires immediate revenue recognition even when the donor intended the revenues to be used to fund the entity's activities over multiple accounting periods

# Potential Modifications to IPSAS 23

## Other resources and other obligations:

- Described as a revenue-led approach
- Reducing the strictness of requirements for recognizing a liability when revenue inflows are received for the purpose of funding future activities
- Allows for recognition of liabilities, such as income in advance, that do not meet the definition of a liability in the IPSASB's Conceptual Framework
- Allows for the measurement of financial performance based on the inflows and outflows associated with operations (activities) in the current period – deferred inflows and outflows

## Example

A central government provides a grant of CU 30 million to a local government to provide dental health services over the next three financial years.

The entire funding is provided upfront.

There are no return requirements within the agreement, but annual reporting is required by the local government detailing the output activities delivered.

## Example – Other resources and other obligations

### Illustrative example – Revenue Led Approach

<b>Balance sheet</b>	<b>2017</b>	<b>2016</b>
	<b>CU 000</b>	<b>CU 000</b>
<b>Assets</b>		
Bank	11,200	20,100
<b>Liabilities</b>		
Grant income in advance	10,000	20,000
<b>Net Assets</b>	<b>1,200</b>	<b>100</b>

<b>Statement of Financial Performance</b>	<b>2017</b>	<b>2016</b>
	<b>CU 000</b>	<b>CU 000</b>
<b>Revenue</b>		
Grant income	10,000	10,000
<b>Expenses</b>		
Costs of delivery of services	8,900	9,900
<b>Surplus/deficit for the year</b>	<b>1,100</b>	<b>100</b>



# Potential Modifications to IPSAS 23

## The performance statement presentation approach:

- Described as a balance sheet led approach
- Different classifications of revenue on face of performance statement, resulting in underlying net surplus balances:
  - Grant revenue used to support current year activities, reported as a part of the net surplus before unutilized grant revenue
  - Grant revenue not fully utilized in the current period, reported as a part of the net surplus for the year
- Taking unutilized grant revenue directly to an equity reserve, and recycling to the performance statement in a subsequent reporting period when utilized

# Example – Performance Statement Presentation

## Illustrative example – Balance Sheet Led Approach

<b>Balance sheet</b>	<b>2017</b>	<b>2016</b>
	<b>CU 000</b>	<b>CU 000</b>
<b>Assets</b>		
Bank	11,200	20,100
<b>Liabilities</b>		
Grant income in advance	-	-
<b>Net Assets</b>	<b>11,200</b>	<b>20,100</b>

Previously recognised grant utilised in period	(10,000)	-
Surplus/deficit for the year	(8,900)	20,100

	<b>Unutilized grant reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>CU 000</b>	<b>CU 000</b>	<b>CU 000</b>
Opening	-	-	-
Surplus/(deficit) for the year	20,000	100	20,100
Closing equity	20,000	100	20,100

Opening	20,000	100	20,100
Surplus/(deficit) for the year	(10,000)	1,100	(8,900)
Closing equity	10,000	1,200	11,200

## IPSASB Feedback Sought

Responding to IPSAS 23 implementation issues	Include in CP - Yes/No	Further analysis required (issues paper) - Yes/No
Exchange/non-exchange classification difficulties		
Interaction between IPSAS 23 and other standards		
Services in kind		
Capital grants		
Tax revenue and expenditure		
Time requirements		



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# Revenue and Expenses

## Item 11.8 Statutory Receivables

Anthony Heffernan

IPSASB Meeting

June 21-24, 2016

Toronto

## Objective of Paper 11.8

- To assist the IPSASB in forming preliminary views on:
  - Whether to develop requirements for statutory receivables
  - What those requirements should be
  - What to say in the Consultation Paper about statutory receivables

# What are statutory receivables?

- Receivables that arise from legislation, supporting regulations or similar means. For example:
  - Taxes receivable
  - Fines and penalties receivable
  - Statutory fees receivable
- More commonly non-exchange (but can be exchange)
- Non-contractual – therefore they are not financial instruments

## What is the problem?

- Concerns about initial recognition under IPSAS 23. Some consider that the fair value requirements in IPSAS 23 are not appropriate
- IPSASs do not address subsequent measurement, derecognition or impairment of non-contractual receivables (See Diagram 1)
- In the absence of guidance in IPSASs, entities have developed their own accounting policies. Views and policies differ



## Examples of Guidance on Statutory Receivables

- South Africa: GRAP 108 *Statutory Receivables*
- Canada: Various public sector standards
- Australia: Guidance issued by Australian Commonwealth Government
- USA: FASAB guidance
- New Zealand: accounting policies for sovereign receivables. Debates about the application of IPSAS 23

## Matters for Consideration

1. Is the IPSASB aware of any other relevant guidance on statutory receivables or current practices that could be useful?
2. Could members and observers please share examples of *international organization receivables* (both those that would fall within the standards on financial instruments and those that would not) and any particular difficulties in accounting for these receivables.

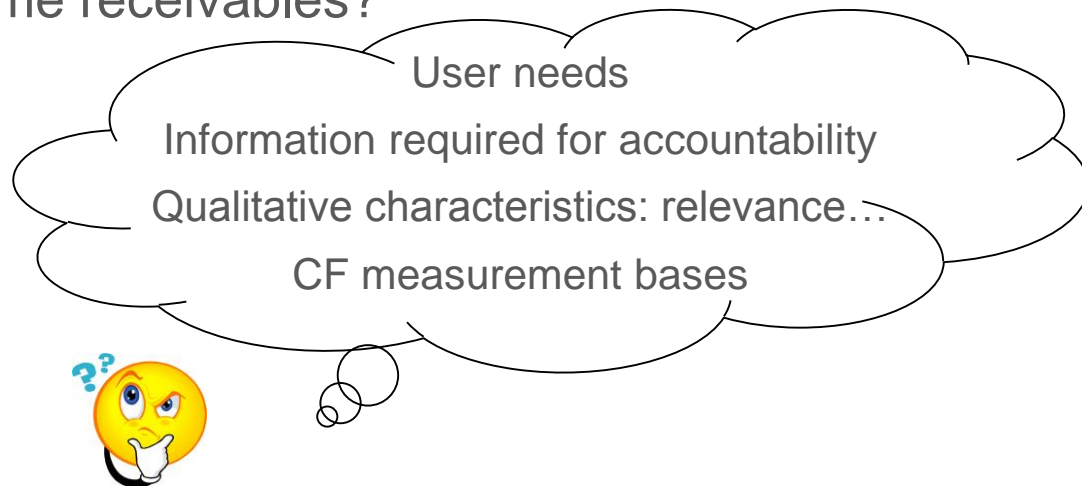
# Possible accounting requirements

Let's consider:

- Initial recognition
- Subsequent measurement, derecognition and impairment

# Initial recognition

- IPSAS 9 and IPSAS 23: initial recognition at fair value
- Is face value/transaction value (being the amount due) more appropriate for some receivables?



## Matters for Consideration

3. What does the IPSASB consider to be the most appropriate requirement for the initial recognition of statutory receivables?

The two options considered in this paper are:

- (a) transaction value (followed by a day 1 impairment) and
- (b) market value.

## Subsequent measurement, derecognition and impairment

- Views differ on whether IPSAS 26 or IPSAS 29 should be used to develop an impairment policy for statutory receivables
- Possible approaches to developing new guidance (no need for a decision yet):
  - Update IPSAS 23 and IPSAS 9 to address the gap
  - Create a new standard, similar to GRAP 108

## Matters for Consideration

4. Does the IPSASB agree that it should establish standards-level requirements to deal with statutory receivables?
5. Does the IPSASB have a view on whether standards-level requirements on subsequent measurement of statutory receivables should be:
  - (a) located in the revenue standard(s); or
  - (b) located in a separate standard?

# Possible CP Proposals on Statutory Receivables

(see Table 2, pages 21-23 of 27)

- Introduction
- Definition
- Initial recognition and measurement
- Derecognition
- Subsequent measurement
- Interest on statutory receivables
- Discount rates
- Disclosure
- GFS alignment
- Links to other projects

*We are seeking feedback on the suggestions in Table 2*

*Does the IPSASB want to express views, seek feedback on alternative options, or be silent on some issues?*

*Let's look at each heading*



## Table 2: CP Introduction

- Acknowledge the gaps in IPSASs in relation to statutory receivables
- Express intention to develop a separate standard dealing with statutory receivables

## Table 2: CP Definition

*Define OR describe statutory receivables?*

### Definition 1

Statutory receivables are those that are created as a result of transactions or events subject to statutory requirements imposed by governments.

### Definition 2

Statutory receivables are those that:

- (a) arise from legislation, supporting regulations, or similar means; and
- (b) require settlement by another entity in cash or another financial asset.

## Table 2: CP Initial recognition and measurement

### *Two proposals for discussion*

#### Option A: Initial recognition at transaction value/face value

Revenue	CU100
Day 1 Impairment expense	CU20
Net impact on surplus/deficit	CU80

#### Option B: Initial recognition at market value and additional disclosures

Revenue	CU80
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## Table 2: CP Derecognition

*As per GRAP 108?*

GRAP 108 covers three scenarios leading to derecognition:

- (a) Rights are settled, expired or waived;
- (b) Transfer of substantially all of the risks and rewards; or
- (c) Retain some significant risk and rewards but transfer control to another party....

## Table 2: CP Subsequent measurement

- Amount initially recognized becomes “initial cost”
  - Measure at “cost” less impairment
  - Impairment options
    - IPSAS 29 incurred loss model/ IFRS 9 expected loss model  
Are statutory receivables similar enough to financial instrument receivables to be accounted for in the same way?
    - IPSAS 26 approach: carrying amount vs recoverable amount (which ends up being estimated future cash flows, as per GRAP 108)
    - GRAP 108 approach: carrying amount vs estimated future cash flows
- May need to develop a new simplified approach for statutory receivables

## Table 2: CP Interest and discount rates

*As per GRAP 108?*

- Adjust amount initially recognized for interest, with accrual interest calculated using the nominal interest rate
- Discount future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks ....

## Table 2: CP Disclosure

*Use GRAP 108 as a starting point?*

- Require fewer disclosures than IPSAS 30
- If IPSASB opts for initial recognition at market value (ie CU80) disclose the difference between amounts assessed or levied and the amount initially recognized
  - Face of statements (Display)
  - Notes (Disclosure)

## Table 2: CP GFS and links with other projects

### *GFS Alignment*

- Seeking feedback on how much work to do and what to say in CP

### *Links with Other Projects*

- Propose that receivables arising out of a modified performance obligation approach would fall within the scope of the financial instrument standards (currently IPSAS 29)



## Matters for Consideration

6. Which of these possible proposals [in Table 2] does the IPSASB consider should be included in the revenue and expense project Consultation Paper?

## Next steps

- If the IPSASB wants a section on statutory receivables in the Consultation Paper, the section will be drafted , taking into account feedback from this meeting
- Based on today's discussion and consideration of the Agenda Paper, are there any specific areas that require further analysis and consideration in the form of an IPSASB Issues Paper?



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## Consultation Paper Chapter 2

# Agenda Item 11.4: Issues Paper—Application of Performance Obligation Approach to Expense Transactions

## Agenda Item 11.4: Application of Performance Obligation Approach to Expense Transactions

- Category A includes revenue transactions only
- Category B includes both exchange and non-exchange in current terminology
  - Other side of Category A revenue transactions
  - Category B revenue transactions
- Category C are expenses that do not have performance obligations

## **Agenda Item 11.4: Category B Expenses**

### **Direct Relationship**

- Public sector entity is the direct recipient of goods or services promised in a contract
- IFRS 15 terminology for parties to a contract
- Identify the parties involved

## Agenda Item 11.4: Category B Expenses

### Terminology Clarification

- **Customer:** 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
- **Entity:** a party that has contracted with a customer to provide goods or services in exchange for consideration

## Agenda Item 11.4: Category B Expenses

### Terminology Clarification

- **Resource provider:** a party that has entered into an arrangement or agreement with a resource recipient to provide goods or services to a party other than the resource provider
- **Resource recipient:** a party that has entered into an arrangement or agreement to provide goods or services to a party other than the resource provider



## **Agenda Item 11.4: Category B Expenses**

### **Terminology Clarification**

#### Matter for Consideration 1

The IPSASB is asked if it agrees with the proposed terms to describe the parties involved in expense transactions.

## Agenda Item 11.4: Category B Expenses

### Consulting Services Example

- Step One: Contract identified between public sector entity and private consulting firm.
- Step Two: Consulting services identified as the performance obligation.
- Step Three: The transaction price of CU100,000 is specified in the contract.
- Step Four: Entire transaction price allocated to services.

## Agenda Item 11.4: Category B Expenses

### Consulting Services Example

- Step Five
  - Evaluate the criteria to recognize over time or at a point in time
  - IFRS 15 paragraph 35 (c)
    - Performance by consulting firm does not create an asset with an alternative use to the consulting firm
    - Consulting firm has an enforceable right to payment for performance completed to date specified in the contract
  - Satisfies criteria for recognition over time

## **Agenda Item 11.4: Category B Expenses No Direct Relationship**

- Examples use resource provider and resource recipient terminology
- Three-party transaction
- Capital grant
- Grant for specific program

## **Agenda Item 11.4: Category B Expenses**

### **Three-Party Transaction**

- Central government provides grant to local government health department
- Grant will pay 50% of the actual cost for 500 vaccinations, up to a specific amount for each vaccination
- Grant amount is based on actual number of vaccinations provided
- Central government has the authority to spend funds

## Agenda Item 11.4: Category B Expenses

### Three-Party Transaction



## Agenda Item 11.4: Category B Expenses

### Three-Party Transaction Step 1

- Parties to the agreement
  - Central government is the resource provider
  - Local government is the resource recipient
- Rights to services can be identified
- Payment terms are identified in the agreement
- Agreement has commercial substance
- Intent to pay

## Agenda Item 11.4: Category B Expenses

### Three-Party Transaction Steps 2-5

- Step 2: Each vaccination is a distinct service
- Step 3: Total amount of consideration expected to be paid is CU2,500 ( $CU10 \times .5 \times 500$ )
- Step 4: Transaction price of CU2,500 is allocated to each of the 500 vaccinations, or CU5 per vaccination
- Step 5: Recognize CU5 of expense for each vaccination completed



## **Agenda Item 11.4: Category B Expenses**

### **Capital Grant**

- Central government provides grant to local government
- Grant will pay 50% of the cost of road construction, up to CU20 million
- Construction completed by a general contractor
- Final bid for construction costs totals CU50 million

## Agenda Item 11.4: Category B Expenses

### Capital Grant Step 1

- Parties to the agreement
  - Central government is the resource provider
  - Local government is the resource recipient
- Obligation to construct the road can be identified
- Payment terms are identified in the agreement
- Agreement has commercial substance
- Intent to pay

## **Agenda Item 11.4: Category B Expenses**

### **Capital Grant Step 2**

- No promise to transfer a good or service to central government
- Obligation to construct the road
- Ability to demonstrate that road has been constructed and obligation has been met

## **Agenda Item 11.4: Category B Expenses**

### **Capital Grant Steps 3-5**

- Step 3: Total amount of consideration expected to be paid is the maximum amount of CU20 million (50% of costs is over the stated maximum)
- Step 4: Transaction price is allocated to construction of the road as single performance obligation
- Step 5: Recognize over time using similar evaluation as described previously

## **Agenda Item 11.4: Category B Expenses Grant for Specific Program**

- Central government provides grant to local government health department to support provision of dental services
- Specific goods or services are not specified
- Funds not used for dental services must be returned
- Total of CU200,000 is provided

## Agenda Item 11.4: Category B Expenses

### Grant for Specific Program Step 1

- Parties to the agreement
  - Central government is the resource provider
  - Local government is the resource recipient
- Obligation to provide services and condition to return funds
  - Sufficiently specific?
- Payment terms, commercial substance, intent to pay

## **Agenda Item 11.4: Category B Expenses**

### **Grant for Specific Program Step 2**

- No promise to transfer a good or service to central government
- Promise to provide services
- Return obligation

## **Agenda Item 11.4: Category B Expenses**

### **Grant for Specific Program Steps 3-5**

- Step 3: Total amount of consideration expected to be paid is the stated amount of CU200,000
- Step 4: Transaction price is allocated to dental services as a single performance obligation
- Step 5: Recognize over time as services are provided



## Agenda Item 11.4: Category B Expenses

### Matter for Consideration 2

The IPSASB is asked if it agrees that the performance obligation approach can be used for Category B expense transactions.

## **Agenda Item 11.4: Category B Expenses**

### **Transactions with Multiple Components**

- Consideration may be intended for both performance obligations and for donation purposes
- Portion not intended for performance obligations may be Category C and not allocated to performance obligations
- Judgment may be needed to determine portion of consideration intended for donation purposes

## Agenda Item 11.4: Category B Expenses

### Transactions with Multiple Components

- Example: Resource provider pays CU6 million to a resource recipient
- CU5 million is for goods to be provided to community
- CU1 million is retained by resource recipient regardless of any goods or services provided
- CU1 million not included in transaction price allocated to the goods to be provided

## **Agenda Item 11.4: Category B Expenses Transactions with Multiple Components**

### Matter for Consideration 3

The IPSASB is asked if it agrees that transactions with a donation component should be separated into the performance obligation component and the donation component for recognition purposes.

## Agenda Item 11.4: Advantages and Disadvantages of Performance Obligation Approach for Expenses

### Advantages

- Similar to revenue transactions
- No assessment of exchange/non-exchange

### Disadvantages

- Determination of whether a performance obligation exists
- New ground
- Complexity

## **Agenda Item 11.4: Advantages and Disadvantages of Performance Obligation Approach for Expenses**

### Neutral

- Performance obligation approach has conceptual consistency
- Exchange/non-exchange approach also is expected to have conceptual consistency

## **Agenda Item 11.4: Advantages and Disadvantages of Performance Obligation Approach for Expenses**

### Matters for Consideration

4. The IPSASB is asked if it agrees with the advantages and disadvantages of application of the performance obligation approach to expenses described.
5. The IPSASB is asked to identify additional advantages and disadvantages of application of the performance obligation approach to expense transactions.



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# Agenda Item 11.6: Issues Paper–Other Resources and Other Obligations

# Goal of Discussion

- Intent is to introduce the topic of potential application of other resources and other obligations, not to reach any tentative conclusions.
- The Board deliberations on this topic are scheduled to occur at the September meeting once the alternatives for IPSAS 23 have been further developed, which will provide a context for consideration of this alternative.

## **Agenda Item 11.6: Other Resources and Other Obligations—History**

- Consideration in development of Conceptual Framework
- Other resources and other obligations not identified as separate elements
- Standards level decision for certain economic phenomena that do not meet the definition of the six elements

## Agenda Item 11.6: Other Resources and Other Obligations—Transfer Example

- National government transfers CU10 million to a local government at the close of business at 30 June
- Funds are restricted for use during the local government's fiscal year beginning on 1 July
- No return obligation or withholding mechanism

## Agenda Item 11.6: Other Resources and Other Obligations—Transfer Example

### Provider view

- Does decrease in cash give rise to an element that meets the definition of an asset or liability?
  - No resources controlled
- Is the outflow a distribution to owners?
  - No

## Agenda Item 11.6: Other Resources and Other Obligations—Transfer Example

### Provider view

- Does the outflow give rise to an expense?
  - Decrease relates to a future time period as they cannot be used until after 1 July
  - The restriction may give rise to an economic phenomenon

## Agenda Item 11.6: Other Resources and Other Obligations—Transfer Example

### Recipient view

- Does increase in cash give rise to an element that meets the definition of an asset or liability?
  - Cash is now controlled by the local government
  - No performance obligation, condition, or refund mechanism
  - Therefore, no present obligation and no liability
- Is the inflow a contribution from owners?
  - No

## Agenda Item 11.6: Other Resources and Other Obligations—Transfer Example

### Recipient view

- Does the inflow give rise to revenue?
  - Funds cannot be used until the fiscal period begins
  - Establishment of time period of use may give rise to an economic phenomenon



## Agenda Item 11.6: Other Resources and Other Obligations—Multi-year Grant Example

- State government provides grant to local government social housing entity
- CU100,000 per year for the next 5 years
- Grant requires social housing division to use funds to support its objectives
- No purpose restrictions or refund provisions
- Entire grant of CU500,000 is paid at the beginning of the agreement

## **Agenda Item 11.6: Other Resources and Other Obligations—Multi-year Grant Example**

- Cash flow decisions may be made due to budget restrictions or pending expirations of appropriated funds
- Those decisions may not faithfully represent the underlying economics
- Recording entire transaction on day one for resources intended to fund a multi-year period may not provide relevant information

## Agenda Item 11.6: Other Resources and Other Obligations—Multi-year Grant Example

### Provider view

- Does the decrease in cash give rise to an element that meets the definition of an asset or a liability?
  - May not necessarily give rise to control of resources as result of a past event, or a prepaid asset
  - State government may not have an enforceable claim to resources
- Is the outflow a distribution to owners?
  - No

## Agenda Item 11.6: Other Resources and Other Obligations—Multi-year Grant Example

### Provider view

- Does the outflow give rise to an expense?
  - Funds are intended for multiple periods, only one of which is considered the current period
  - Outflow for first year meets the definition for current period expense
  - Outflows for the remaining four years may give rise to economic phenomena

## Agenda Item 11.6: Other Resources and Other Obligations—Multi-year Grant Example

### Recipient view

- Does increase in cash give rise to an element that meets the definition of an asset or liability?
  - Cash is now controlled by the local government
  - No performance obligation, condition, or refund mechanism
  - Therefore, no present obligation and no liability
- Is the inflow a contribution from owners?
  - No

## Agenda Item 11.6: Other Resources and Other Obligations—Multi-year Grant Example

### Recipient view

- Does the inflow give rise to revenue?
  - Time restriction
  - Does that restriction give rise to economic phenomena?

## **Agenda Item 11.6: Other Resources and Other Obligations—Property Taxes Example**

- Taxable event is generally the passing of the date on which the tax is levied, or the period for which the tax is levied
- Some jurisdictions levy tax prior to the period for which the resources are to be spent

## Agenda Item 11.6: Other Resources and Other Obligations—Property Taxes Example

- Taxes levied 30 November and partial are due and collected 31 December
- Required by law to be used by local government in fiscal year beginning on 1 January
- Of the CU50 million levied, CU10 million are collected by 31 December
- Remaining amount due is collected by 31 January



## Agenda Item 11.6: Other Resources and Other Obligations—Property Taxes Example

- Local government evaluates when the transaction gives rise to an element that meets the definition of an asset
- Control of resources from taxpayers for amount levied, including both amount collected and amount outstanding
- Existence of an enforceable right

## Agenda Item 11.6: Other Resources and Other Obligations—Property Taxes Example

- Does the credit give rise to a liability?
  - No present obligation for an outflow of resources
- Are the resources a contribution from owners?
  - No

## Agenda Item 11.6: Other Resources and Other Obligations—Property Taxes Example

- Does the transaction give rise to revenue?
  - Levied for use in fiscal year that has not yet begun
  - Not likely to levy taxes twice for the same period
  - The period for which the tax was levied could give rise to other economic phenomenon



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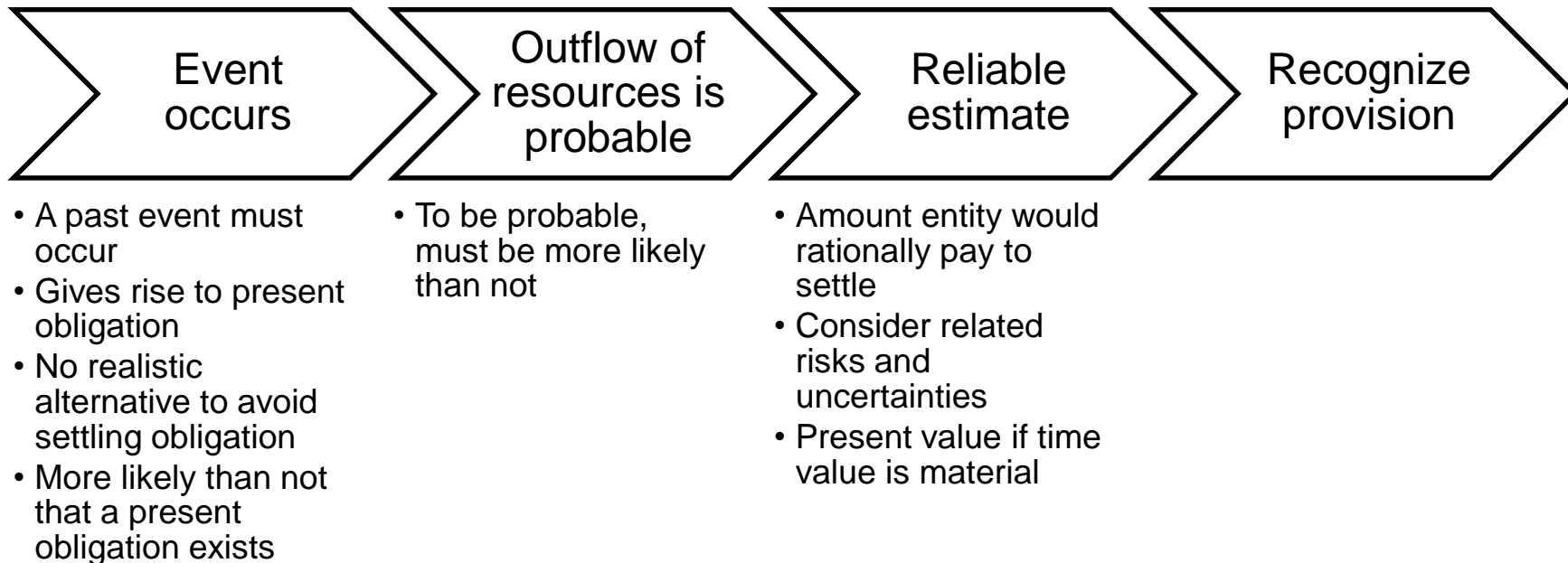
## Consultation Paper Chapter 3

# Agenda Item 11.9: Issues Paper–Modifications to Existing Guidance as Alternatives

## **Agenda Item 11.9: Modifications to Exiting Guidance as Alternatives**

- Conceptual comparisons
- Potential modifications to IPSAS 19
- Potential modifications to IPSAS 23

## Agenda Item 11.9: IPSAS 19 Conceptual Comparisons

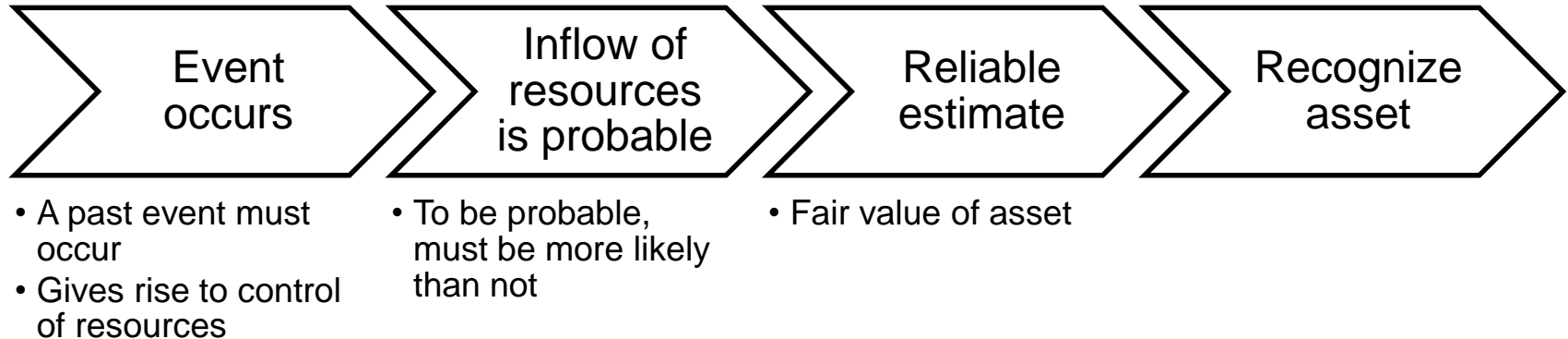


## Agenda Item 11.9: IPSAS 19 Conceptual Comparisons

IPSAS 19	Conceptual Framework
More likely than not	Little to no realistic alternative to avoid
No realistic alternative to avoid	
Constructive obligations	Non-legally binding obligations



## Agenda Item 11.9: IPSAS 23 Conceptual Comparisons



## Agenda Item 11.9: IPSAS 23 Conceptual Comparisons

### IPSAS 23

- More likely than not

### Conceptual Framework

- No reference to probability in the recognition section

## Agenda Item 11.9: IPSAS 19 Modifications

- Revise scope to specifically include non-exchange transactions of resource providers that are not social benefits
- Include examples of non-exchange transactions in Implementation Guidance
- Modify the more likely than not threshold

## Agenda Item 11.9: IPSAS 19 Scope Revisions and Implementation Guidance

- Advantages
  - Clear direction
  - Incorporate new implementation guidance
- Disadvantages
  - IAS 37 did not contemplate non-exchange transactions
  - Transactions in practice may be more complex
  - Interaction with social benefits

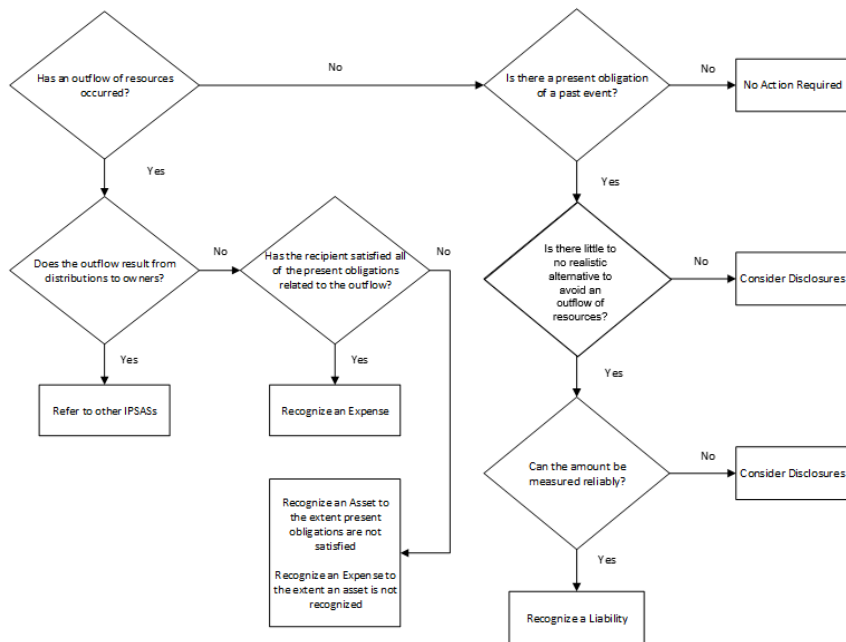
## Agenda Item 11.9: IPSAS 19 Probability Threshold

- Advantages
  - Consistent with Conceptual Framework
  - Consistent with obligating events approach in social benefits
- Disadvantages
  - Potential effect on current guidance in IPSAS 19

## Agenda Item 11.9: IPSAS 23 Modification

- Discussed in previous agenda papers
- Identified sticking point of evaluating a transaction in which the flow of resources has already occurred
- Additional modifications proposed to decision flowchart to reflect change in starting point

# Agenda Item 11.9: IPSAS 23 Modification



## Agenda Item 11.9: Modifications to Existing Guidance as Alternatives

### Matters for Consideration

1. The IPSASB is asked to identify additional potential modifications to IPSAS 19 or IPSAS 23.
2. The IPSASB is asked if it agrees with the advantages and disadvantages of the potential modifications described.
3. The IPSASB is asked to identify additional advantages and disadvantages of the potential modifications.



# Consultation Paper Chapter 3

## Agenda Item 11.1: Consultation Paper Draft Outline

## Consultation Paper Chapter 3

### Overview of Model

- Current definitions of exchange and non-exchange
- Revenue alternatives
  - Two options for exchange revenues
  - One option for non-exchange revenues
- Expense alternatives
  - No guidance for exchange expenses
  - Two options for non-exchange expenses

## Consultation Paper Chapter 3

### Advantages and Disadvantages

#### Advantages

- Foundational in public sector
- Familiar to preparers
- Judgments necessary are known

#### Disadvantages

- Challenges in determining nature and classification of transactions
- Distinction is not that relevant or prevalent in presentation of financial statements

## Consultation Paper Chapter 3

### Exchange Revenue Alternatives

- Pure IFRS 15 approach
  - Transactions that do not meet criteria are out of scope
  - Exchange classification is first step
- Modified performance obligation approach
  - Similar modifications proposed in Chapter 2
  - Difference is that only exchange transactions would be included
  - Non-exchange transactions would not be included

## Consultation Paper Chapter 3

### Non-Exchange Revenue

- Modified IPSAS 23
- Potential modifications to be considered in September presented previously



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# Agenda Item 11.1

## Consultation Paper Draft Outline

## **Agenda Item 11.1: Consultation Paper Draft Outline Draft Sections Complete**

- Chapter 1: Introduction
- Appendix A: Overview of Existing IPSASs
- Appendix B: Preparer Interviews



## **Agenda Item 11.1: Consultation Paper Draft Outline Draft Sections Partially Complete**

- Chapter 2: Performance Obligation Approach
- Appendix C: Decision Trees

## **Agenda Item 11.1: Consultation Paper Draft Outline Draft Sections Not Yet Complete**

- Chapter 3: Exchange/Non-Exchange Approach
- Chapter 4: Measurement
- Appendix D: Illustrative Examples



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# Consultation Paper Chapter

## Agenda Item 11.10: Appendices A-D

## Appendices A and B

- Appendix A: Overview of Existing IPSASs
- Appendix B: Preparer Interviews

## Appendix C

- Provide a depiction of each overall approach considered in the CP to illustrate the alternatives
- Consider need for additional information to be provided in the diagrams
- Feedback on presentation in an appendix

# Appendix C

## Performance Obligation Approach



# Appendix C

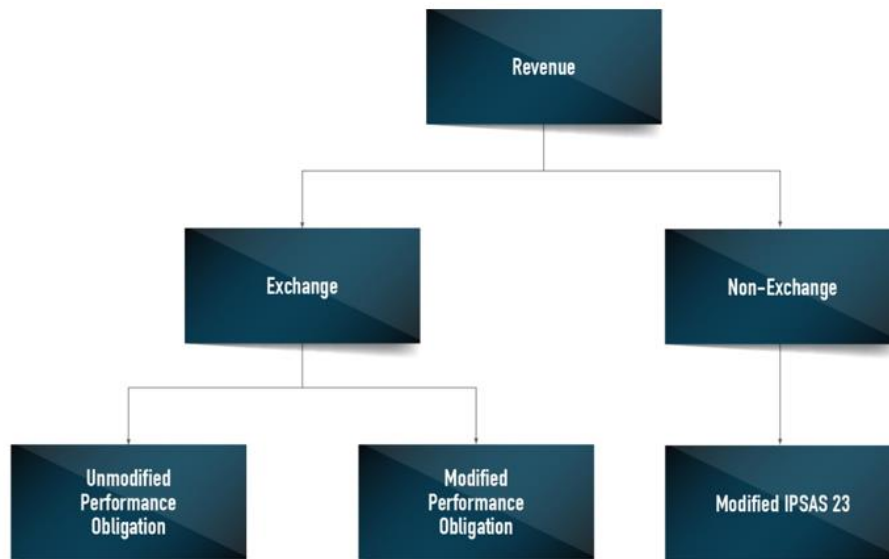
## Performance Obligation Approach





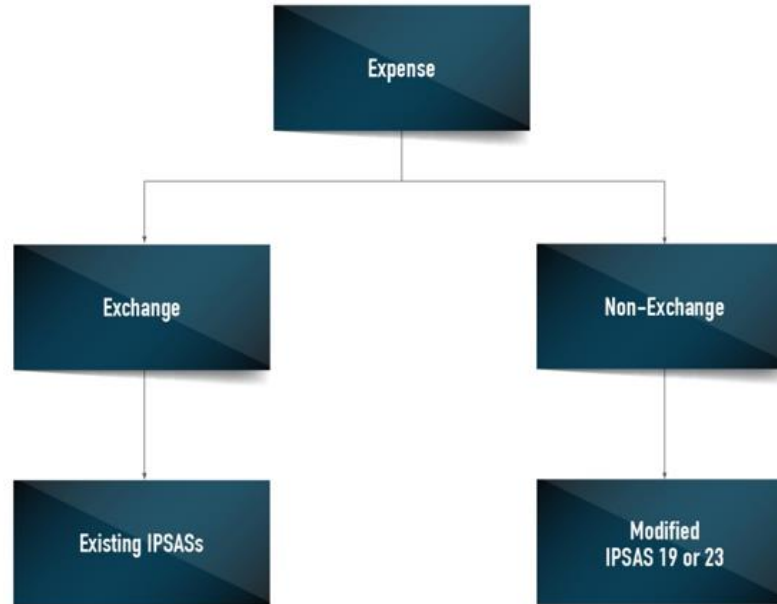
# Appendix C

## Exchange/Non-Exchange Approach



# Appendix C

## Exchange/Non-Exchange Approach



## Appendix D

- Partial structure of the appendix is provided for discussion
- Intent is to provide examples to demonstrate the application of the approaches, including options within each approach
- Feedback sought on both structure of appendix and examples to include



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