



Agenda Item 9: Revenue and Non-Exchange Expenses Public Sector Performance Obligation Approach

Joanna Spencer

Manager, Standards Development and Technical Projects

Paul Mason, Principal

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Objective of this session

- Revenue
 - Consider proposals to expand the IFRS 15 5-steps for use in the public sector
 - Test the public sector specific examples provided
- Non-Exchange Expenses
 - XXXXXX

Step 1 – Identify the Contract

- Contract – add ‘or other binding arrangement’ (discussed in Agenda Item 8)
- Enforceable rights – extend beyond legal enforceability
 - Legislation
 - Cabinet and ministerial decisions
 - Reduction of future funding ?

Step 1 – Identify the Contract cont.

- Customer – Guidance re third party transactions

A customer within a public sector transaction is not necessarily the entity that receives goods or services in exchange for consideration but rather can include an entity that provides consideration and directs the goods and services to be provided to another party.

- Commercial substance – add ‘or service potential’

Step 2 – Identify Performance Obligations

- Distinct – to be able to determine when a performance obligation has been satisfied
 - nature, cost, value, volume
 - ‘sufficiently specific’ or something similar, guidance?
- Transfer – required to fulfil a performance obligation
 - would exclude capital grants, some research grants
 - expand performance obligation beyond a transfer?

Step 3 – Determine the transaction price

- Hybrid/mixed transactions – combination of transfer of goods & services and donation
 - Provide guidance?

Step 4 – Allocate the transaction price

- Needs to depict the amount of consideration the entity expects to be entitled to for transferring promised goods/services
 - Fulfillment of performance obligation?
 - Determine by:
 - Bundling
 - Cost or proportionate to cost
 - Straight line

Step 5 – Recognize Revenue

- Recognize when the performance obligations are satisfied.
 - No changes required?

Illustrative Examples – Example 1

- General Operating Grant
 - Central Govt gives grant to Local Govt for CU 400,000
 - No specifications on how to be used
 - Central Govt has no enforcement mechanisms
 - Local Govt budgets the CU 400,000 to fund specific salary costs for four years
 - Payment made from Central Govt to Local Govt in 4 x CU 100,000 payment
 - Payments made at beginning of each financial year

Illustrative Examples – Example 1 cont.

- Step 1 – Identify the contract/binding arrangement
 - There are no enforceable rights or obligations – therefore no contract/binding arrangement
 - Does not fall within the PSPOA – use updated IPSAS 23
- Step 2 – Identify the performance obligations
 - No specifications on how the grant is to be used therefore not 'distinct'

Illustrative Examples – Example 2

- General Operating Grant
 - Central Govt gives grant to Local Govt for CU 400,000
 - Grant required to be consumed over a four-year period
 - No other specifications on use
 - Central Govt has no enforcement mechanisms
 - Local Govt budgets the CU 400,000 to fund specific salary costs for four years
 - Payment made from Central Govt to Local Govt in 4 x CU 100,000 payment
 - Payments made at beginning of each financial year

Illustrative Examples – Example 2 cont.

- Step 1 – Identify the contract/binding arrangement
 - There are no enforceable rights or obligations – therefore no contract/binding arrangement
 - Does not fall within the PSPOA – use updated IPSAS 23
- Step 2 – Identify the performance obligations
 - No specifications on how the grant is to be used other than a four-year period = time requirements

Illustrative Examples – Example 3

- Grant for funding of salary cost
 - Central Govt gives grant to Local Govt for CU 400,000
 - Grant is provided to fund specified salary costs over a four-year period
 - Central Govt has no enforcement mechanisms
 - Local Govt budgets the CU 400,000 to fund specific salary costs for four years
 - Local Govt is required to submit, to the Central Govt, annual financial statements including information detailing salary costs incurred in the year
 - Payment made from Central Govt to Local Govt in 4 x CU 100,000 payment
 - Payments made at beginning of each financial year

Illustrative Examples – Example 3 cont.

- Step 1 – Identify the contract/binding arrangement
 - There are no enforceable rights or obligations – therefore no contract/binding arrangement
 - Does not fall within the PSPOA – use updated IPSAS 23
- Step 2 – Identify the performance obligations
 - Grant is to fund specified salary costs but no transfer of goods or services

Illustrative Examples – Example 4

- Grant for funding of salary cost
 - Central Govt gives grant to Local Govt for CU 400,000
 - Grant is provided to fund specified salary costs over a four-year period
 - Central Govt **has enforcement mechanisms** which require the Local Govt to use the funds as specified
 - Enforcement mechanism is a return obligation
 - Local Govt budgets the CU 400,000 to fund specific salary costs for four years
 - Local Govt is required to submit, to the Central Govt, annual financial statements including information detailing salary costs incurred in the year
 - Payment made from Central Govt to Local Govt in 4 x CU 100,000 payment
 - Payments made at beginning of each financial year

Illustrative Examples – Example 4 cont.

- Step 1 – Identify the contract/binding arrangement
 - There are enforceable rights or obligations
 - Both parties have agreed to the arrangement
 - The Central Govt is the customer

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations
 - There is no requirement to transfer goods or services

Therefore there is no performance obligation

Does not fall within the PSPOA – use updated IPSAS 23

Question – would the transfer of services change if the salary was for a specific profession?

Illustrative Examples – Example 5

- Grant to provide mental health services
 - Central Govt gives grant to Local Govt for CU 100,000
 - Grant to provide mental health services to prison inmates
 - Number of hours of counselling services not provided but minimum of CU 100,000 in value must be provided
 - Provider of counselling services must be an accredited mental health provider
 - Local Govt is required to report to the Central Govt the number of hours of counselling provided for the month
 - Central Govt has enforcement mechanisms
 - Payment of CU 100,00 made at beginning of the financial year

Illustrative Examples – Example 5 cont.

- Step 1 – Identify the contract/binding arrangement

- There are enforceable rights or obligations
- Both parties have agreed to the arrangement
- The Central Govt is the customer
- The prison inmates are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations

- The grant requires the transfer of counselling services to beneficiaries
- This is a transfer of a distinct service

Therefore there is a performance obligation

Illustrative Examples – Example 5 cont.

- Step 3 – Determine the consideration
 - The Local Govt expects to receive CU 100,000 for providing the counselling services

Therefore the consideration is CU 100,000
- Step 4 – Allocate the consideration
 - It would be appropriate to allocate the consideration based on a counsellor's hourly rate

Therefore the consideration is allocated at hours x hourly rate
- Step 5 – Recognize revenue

Revenue is recognized at the counsellors number of hours x hourly rate

Illustrative Examples – Example 5 cont.

- **Accounting treatment**

- Revenue is recognized when the Local Govt satisfies the performance obligation of providing counselling services to the prison inmates

Initial recognition of grant

DR Bank	CU 100,000	
CR Unearned Revenue		CU 100,000

Subsequent recognition of revenue

DR Unearned Revenue	CU XX	
CR Revenue		CU XX

Revenue is recognized based on number of counselling hours x hourly rate.

Illustrative Examples – Example 6

- Transfer of land
 - Central Govt agrees to transfer land to a Local Govt
 - The land is to be used for a community garden by residents within the Local Govt's jurisdiction
 - The Central Govt has an enforcement mechanism
 - The value of the land is CU 500,000
 - The transfer of the land is to take place at the beginning of the financial year

Illustrative Examples – Example 6 cont.

- Step 1 – Identify the contract/binding arrangement

- The Central Govt has an enforcement mechanism
- The Central Govt is the customer
- The Local Govt residents are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations

- The land is transferred to the Local Govt
- The Local Govt is required to use the land as a community garden
- However, there is no 'distinctness' associated with the land transfer - it is an open ended arrangement with no expiry

Therefore there is no performance obligation

Does not fall within the PSPOA – use updated IPSAS 23

Illustrative Examples – Example 7

- Transfer of land for a specific period of time
 - Central Govt agrees to transfer land to a Local Govt
 - The land is to be used for a community garden by residents within the Local Govt's jurisdiction
 - The Central Govt has an enforcement mechanism
 - The land is required to be used as a community garden for 20 years after which time the ownership of the land will be retained by the Local Govt.
 - The Local Govt is required each year to provide the Central Govt with evidence that the land is being used as a community garden
 - The value of the land is CU 500,000
 - The transfer of the land is to take place at the beginning of the financial year

Illustrative Examples – Example 7 cont.

- Step 1 – Identify the contract/binding arrangement

- The Central Govt has an enforcement mechanism
- The Central Govt is the customer
- The Local Govt residents are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations

- The land is transferred to the Local Govt
- The Local Govt is required to use the land as a community garden – this is a service to the beneficiaries
- The land is to be used as a community garden for 20 years – this is a distinct period of time that the land is to be used

Therefore there is a performance obligation

Illustrative Examples – Example 7 cont.

- Step 1 – Identify the contract/binding arrangement

- The Central Govt has an enforcement mechanism
- The Central Govt is the customer
- The Local Govt residents are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations

- The land is transferred to the Local Govt
- The Local Govt is required to use the land as a community garden – this is a service to the beneficiaries
- The land is to be used as a community garden for 20 years – this is a distinct period of time that the land is to be used

Therefore there is a performance obligation

Illustrative Examples – Example 7 cont.

- Step 3 – Determine the consideration
 - The Local Govt expects to receive land to the value of CU 500,000 in exchange for making it available for use by residents as a community garden

Therefore the consideration is CU 500,000

- Step 4 – Allocate the consideration
 - It would be appropriate to allocate the consideration on a straight-line basis value/number of years

Therefore the consideration is allocated on the basis of $\text{CU } 500,000/20 = \text{CU } 25,000$ per year

- Step 5 – Recognize revenue

Revenue is recognized yearly, at CU 25,000 per year

Illustrative Examples – Example 7 cont.

- **Accounting treatment**

- Revenue is recognized when the Local Govt satisfies the performance obligation of making the land available to residents as a community garden

Initial recognition of grant

DR Land	CU 500,000	
CR Unearned Revenue		CU 500,000

Subsequent recognition of revenue

DR Unearned Revenue	CU 25,000	
CR Revenue		CU 25,000

Revenue is recognized at CU 25,000 per year for 20 years providing the land is continued to be used as a community garden

Illustrative Examples – Example 8

- Grant to construct a building
 - Central Govt agrees to provide a grant to a Local Govt
 - The grant is to be used to construct an early childhood education facility
 - The construction period is expected to be 12 months
 - The early childhood education facility is required to be used for that purpose for 10 years
 - Any funds not spent on construction the asset must be returned to the Central Govt
 - If the Local Govt ceases to use the facility for early childhood education within the 10 years, the Central Govt can demand repayment of the entire grant
 - The Central Govt has enforcement mechanisms to enforce the return of the grant if the use condition is breached
 - A CU 10,000,000 payment is made by the Central Govt to the Local Govt at the beginning of the financial year
 - The Local Govt is required to provide the Central Govt with a progress report on pre-agreed significant stages of the construction of the facility

Illustrative Examples – Example 8 cont.

- Step 1 – Identify the contract/binding arrangement
 - The Central Govt has an enforcement mechanism
 - The Central Govt is the customer
 - The parents/children using the facility are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations

There are two requirements in this agreement

- The building of the facility
 - There is no transfer of goods or services to the customer

Therefore there is no performance obligation associated with the construction

- The use of the facility
 - There is a transfer of services to the parents/children that use the facility

Therefore there is a performance obligation associated with the use of the facility

Illustrative Examples – Example 8 cont.

- Step 3 – Determine the consideration
 - Because the enforcement is associated with the use of the facility for 10 years, the consideration is the full amount of the grant

Therefore the consideration is CU 10,000,000

- Step 4 – Allocate the consideration
 - The full grant is linked to the usage of the asset therefore the consideration should be allocated as grant/number of years

Therefore the amount of consideration allocated each year is CU

- Step 5 – Recognize revenue

Revenue is recognized as CU 1,000,000 per year

Illustrative Examples – Example 8 cont.

Accounting treatment

- Revenue is recognized when the Local Govt satisfies the performance obligation of using the asset as an early childhood education facility

Initial recognition of grant

DR Bank	CU 10,000,000	
CR Unearned Revenue		CU 10,000,000

Subsequent recognition of revenue

DR Unearned Revenue	CU 1,000,000	
CR Revenue		CU 1,000,000

Revenue is recognized at CU 1,000,000 per year for 10 years providing the asset is continued to be used as an early childhood education facility

Board Discussion

- **Should the grant be allocated between the building and the use of the facility?**
- **If so on what basis should such an allocation be made?**

Illustrative Examples – Example 9

- Grant for rental of additional teaching space
 - Central Govt agrees to provide a grant to a University of CU 50,000
 - The grant is to used to rent extra teaching space
 - The University has provided evidence to the Central Govt that the required rented teaching space will cost CU 50,000
 - The rental agreement is for one year but can be renewed by the University
 - The grant is renewable annually while the extra teaching space is required
 - The teaching space is to be used to deliver university courses to students
 - The grant is repayable (on a pro-rate basis) if the teaching space is not used for the full university year
 - The grant is paid at the beginning of the financial year

Illustrative Examples – Example 9 cont.

- Step 1 – Identify the contract/binding arrangement
 - The Central Govt has an enforcement mechanism
 - The Central Govt is the customer
 - The students using the teaching space are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations
 - The grant requires the University to use the teaching space to deliver courses to students – this is a transfer of a distinct service

Therefore there is a performance obligation

Illustrative Examples – Example 9 cont.

- Step 3 – Determine the consideration
 - The University expects to receive CU 50,000 to rent the teaching space**Therefore the consideration is CU 50,000**
- Step 4 – Allocate the consideration
 - It would be appropriate to allocate the consideration based on the rent paid at reporting date**Therefore the amount of consideration would be allocated on the basis of rent paid as at each reporting date**
- Step 5 – Recognize revenue
Revenue is recognized as the amount of rent paid for the reporting period

Illustrative Examples – Example 9 cont.

Accounting treatment

- Revenue is recognized when the University satisfies the performance obligation of providing the teaching space for students

Initial recognition of grant

DR Bank	CU 50,000	
CR Unearned Revenue		CU 50,000

Subsequent recognition of revenue

DR Unearned Revenue	CU XX	
CR Revenue		CU XX

Revenue is recognized based on the amount of rent paid at reporting date – for example if the University provided a half yearly report the amount of revenue recognized would be CU 25,000

Illustrative Examples – Example 10

- Payment for the construction of building to house extra teaching space
 - A Central Govt provides payment of CU 15,000,000 to a University
 - The funds are to be used to construct a building to provide extra teaching space
 - The University is required to use the building as teaching space to deliver courses to students for 30 years
 - The payment of CU 15,000,000 is an interest free loan from the Central Govt to the University
 - The payment of CU 15,000,000 is to be made at the beginning of the financial year
 - The Central Govt writes the loan down to the value of the depreciation
 - The Central Govt has an enforcement mechanism to require pro-rata repayment of the loan if the building ceases to be used as teaching space
 - The building is to be depreciated over 30 years on a straight-line basis with no residual

Illustrative Examples – Example 10 cont.

- Step 1 – Identify the contract/binding arrangement
 - The Central Govt has an enforcement mechanism
 - The Central Govt is the customer
 - The students using the teaching space are the beneficiaries

Therefore there is a binding arrangement

- Step 2 – Identify the performance obligations
 - The University is required to use the building as teaching space to deliver courses to students – this is a transfer of a distinct service

Therefore there is a performance obligation

Illustrative Examples – Example 10 cont.

- **Step 3 – Determine the consideration**

- The payment of CU 15,000,000 is an interest free loan from the Central Govt, however the writing down of the loan to the value of the depreciation is in effect a grant

Therefore the University expects to receive consideration to the value of CU 15,000,000

- **Step 4 – Allocate the consideration**

- The loan is written down by the value of the depreciation each year. Therefore the consideration should be allocated on the same basis.

Therefore the consideration would be allocated as CU 500,000 per year

- **Step 5 – Recognize revenue**

Revenue is recognized as CU 500,000 per year

Illustrative Examples – Example 10 cont.

Accounting treatment

- Revenue is recognized when the University satisfies the performance obligation of providing the teaching space for students

Initial recognition of receipt of funds

DR Bank	CU 15,000,000	
CR Loan		CU 15,000,000

Subsequent recognition of depreciation

DR Depreciation	CU 500,000	
CR Accumulated Depreciation		CU 500,000

Recognition of revenue

DR Loan	CU 500,000	
CR Revenue		CU 500,000

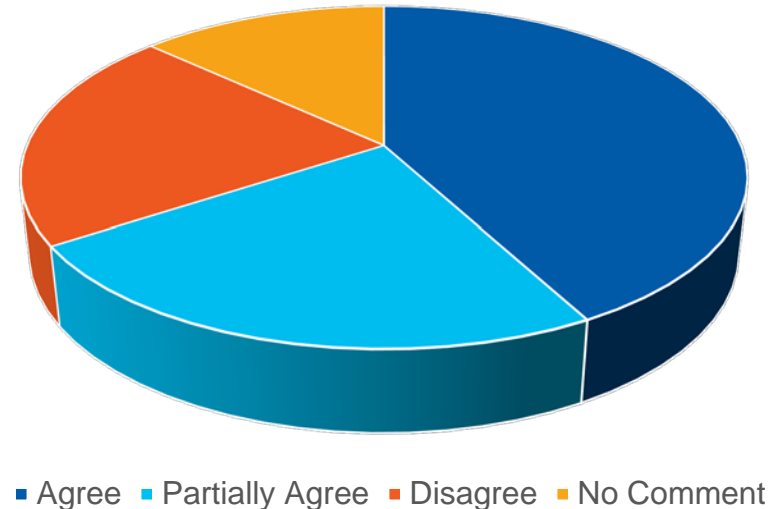
Non-Exchange Expenses: PSPOA (Agenda Item 9.2.3)

Preliminary View 7

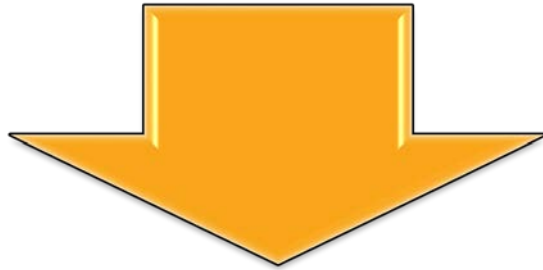
The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

Number of Respondents



Non-Exchange Expenses: PSPOA (Agenda Item 9.2.3)

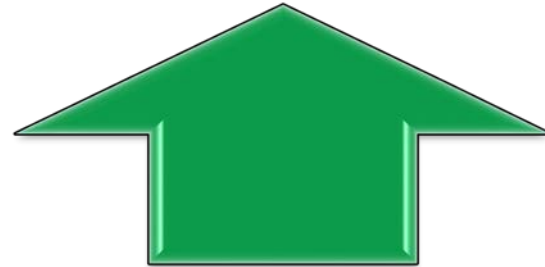


Disadvantages

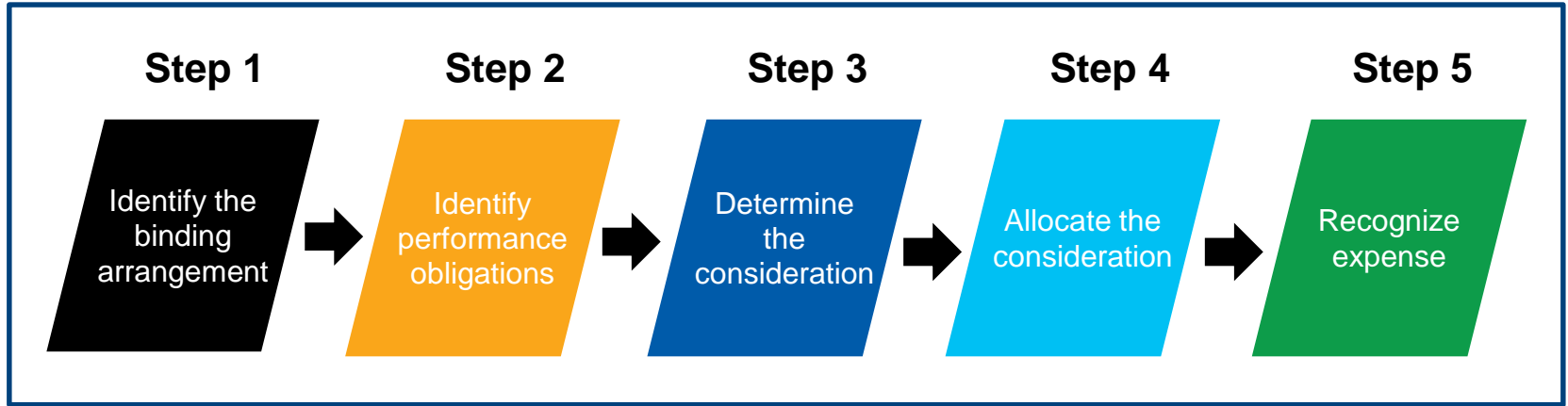
- Conceptual Issues (when can an obligation be avoided)
- Practical Issues (information availability)

Advantages

- Symmetrical (grantor and recipient)
- Consolidation / Whole of Government Accounts

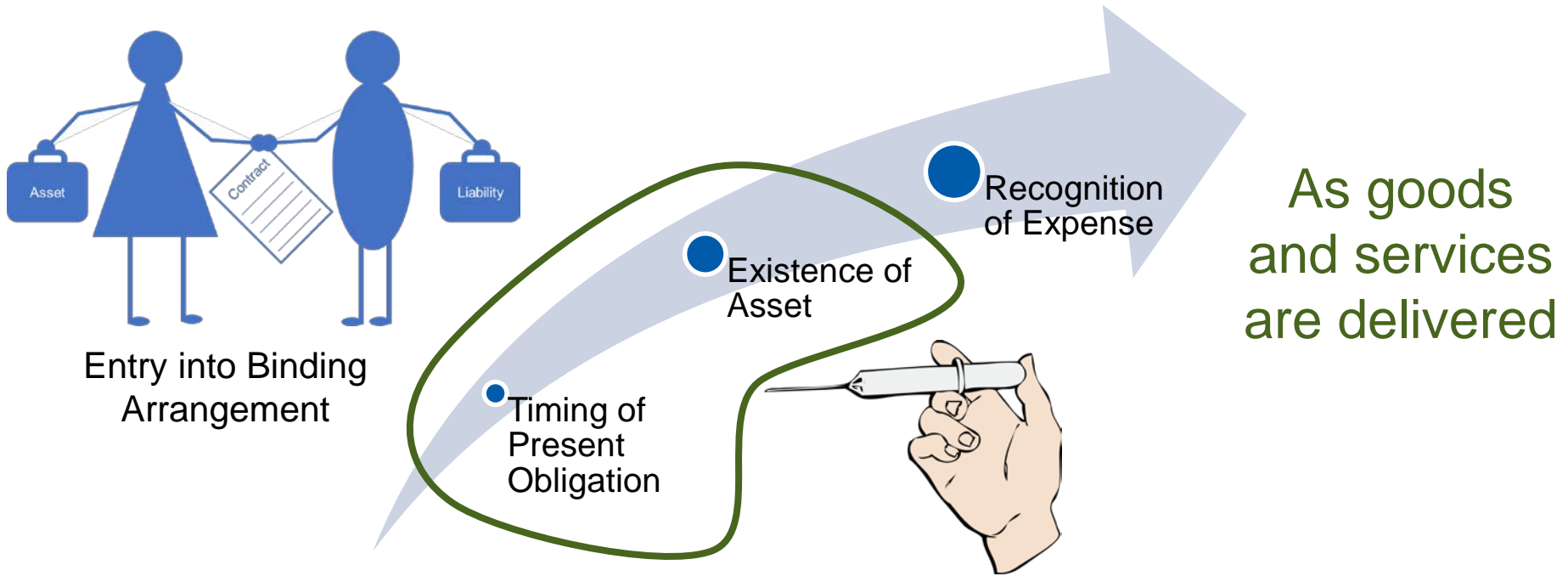


Non-Exchange Expenses: PSPOA (Agenda Item 9.2.3)



- Revenue {
- Grantor has enforceable rights
 - Performance obligation is for the transfer of goods or services
 - Account for components without performance obligations separately

Non-Exchange Expenses: PSPOA (Agenda Item 9.2.3)



Non-Exchange Expenses: PSPOA (Agenda Item 9.2.3)

Decisions Required

Whether grants, contributions and other transfers that contain either performance obligations or stipulations should be accounted for using the (PSPOA)

Whether the IPSASB is asked whether it agrees with staff's conclusions regarding the accounting approach

Whether an ED on non-exchange expenses should adopt a net or gross presentation

Non-Exchange Expenses: PSPOA Examples (Agenda Item 9.2.3 Appendix A)

Same
Examples as
Revenue

Steps 1 (Binding Arrangement) and 2 (Performance Obligation) already covered – not repeated in these examples

Examples
1, 2, 3, 4, 6

Staff conclusion that accounted for outside PSPOA already discussed

Non-Exchange Expenses: PSPOA Example 5 (Agenda Item 9.2.3 Appendix A)

- Grant to provide mental health services
 - Central Govt gives grant to Local Govt for CU 100,000
 - Grant to provide mental health services to prison inmates
 - Number of hours of counselling services not provided but minimum of CU 100,000 in value must be provided
 - Provider of counselling services must be an accredited mental health provider
 - Local Govt is required to report to the Central Govt the number of hours of counselling provided for the month
 - Central Govt has enforcement mechanisms
 - Payment of CU 100,00 made at beginning of the financial year

Non-Exchange Expenses: PSPOA Example 5 cont. (Agenda Item 9.2.3 Appendix A)

- Step 3 – Determine the consideration
 - The Central Government expects to transfer CU 100,000 in exchange for the Local Government Entity providing the counselling services.

Therefore the consideration is CU 100,000.
- Step 4 – Allocate the consideration
 - It would be appropriate to allocate the consideration based counsellor's hourly rate.

Therefore the consideration is allocated on the basis of the counsellor's hourly rate.
- Step 5 – Recognize expense

A non-exchange expense is recognized as the counsellor delivers services, calculated as the counsellor's hours x hourly rate.

Non-Exchange Expenses: PSPOA Example 5 cont. (Agenda Item 9.2.3 Appendix A)

Accounting treatment

Non-exchange expenses are recognized as the Local Government Entity satisfies the performance obligation of providing counselling services to prison inmates

This transaction would be accounted for under a PSPOA based standard

Initial recognition of binding arrangement

DR Asset (right to services) CU 100,000

CR Liability (grant payable) CU 100,000

Entering into a binding arrangement gives rise to a present obligation. In this case, it also gives rise to an asset of equal value, being the right to control the delivery of the agreed services.

Note: Presentation may be net or gross depending on earlier discussions

Non-Exchange Expenses: PSPOA Example 5 cont. (Agenda Item 9.2.3 Appendix A)

Payment of grant

DR Liability (grant payable)	CU 100,000	
CR Bank		CU 100,000

Subsequent recognition of non-exchange expenses

DR Non-exchange expenses	CU XX	
CR Asset (right to services)		CU XX

Non-exchange expenses are recognized as the Local Government Entity satisfies its performance obligation by delivering the counselling services. The value of the expenses recognized will be based on the number of counselling hours x hourly rate.

Non-Exchange Expenses: PSPOA Example 7 (Agenda Item 9.2.3 Appendix A)

- Transfer of land for a specific period of time
 - Central Govt agrees to transfer land to a Local Govt
 - The land is to be used for a community garden by residents within the Local Govt's jurisdiction
 - The Central Govt has an enforcement mechanism
 - The land is required to be used as a community garden for 20 years after which time the ownership of the land will be retained by the Local Govt.
 - The Local Govt is required each year to provide the Central Govt with evidence that the land is being used as a community garden
 - The value of the land is CU 500,000
 - The transfer of the land is to take place at the beginning of the financial year

Non-Exchange Expenses: PSPOA Example 7 cont. (Agenda Item 9.2.3 Appendix A)

- Step 3 – Determine the consideration
 - The Central Government expects to transfer land to the value of CU 500,000 in exchange for making it available for use by residents as a community garden.
Therefore the consideration is CU 500,000.
- Step 4 – Allocate the consideration
 - It would be appropriate to allocate the consideration on a straight-line basis over time as this reflects the pattern of service delivery.
Therefore the consideration is allocated on the basis $\text{CU } 500,000 / 20 \text{ years} = \text{CU } 25,000 \text{ per year}$
- Step 5 – Recognize expense
Non-exchange expense are recognized yearly, at CU 25,000 per year

Non-Exchange Expenses: PSPOA Example 7 cont. (Agenda Item 9.2.3 Appendix A)

Accounting treatment

Non-exchange expenses are recognized as the Local Government Entity satisfies the performance obligation of making the land available to residents as a community garden.

This transaction would be accounted for under a PSPOA based standard

Initial recognition of binding arrangement

DR Asset (right to services)	CU 500,000	
CR Liability (obligation to transfer land)		CU 500,000

Note: Presentation may be net or gross depending on earlier discussions

Non-Exchange Expenses: PSPOA Example 7 cont. (Agenda Item 9.2.3 Appendix A)

Transfer of land

DR Liability (obligation to transfer land)	CU 500,000	
CR Property, Plant and Equipment		CU 500,000

Subsequent recognition of non-exchange expenses

DR Non-exchange expenses	CU 25,000	
CR Asset (right to services)		CU 25,000

Note that this example does not consider the effect of the time value of money and discounting.

Non-Exchange Expenses: PSPOA Example 8 (Agenda Item 9.2.3 Appendix A)

- Grant to construct a building
 - Central Govt agrees to provide a grant to a Local Govt
 - The grant is to be used to construct an early childhood education facility
 - The construction period is expected to be 12 months
 - The early childhood education facility is required to be used for that purpose for 10 years
 - Any funds not spent on construction the asset must be returned to the Central Govt
 - If the Local Govt ceases to use the facility for early childhood education within the 10 years, the Central Govt can demand repayment of the entire grant
 - The Central Govt has enforcement mechanisms to enforce the return of the grant if the use condition is breached
 - A CU 10,000,000 payment is made by the Central Govt to the Local Govt at the beginning of the financial year
 - The Local Govt is required to provide the Central Govt with a progress report on pre-agreed significant stages of the construction of the facility

Non-Exchange Expenses: PSPOA Example 8 cont. (Agenda Item 9.2.3 Appendix A)

- Step 3 – Determine the consideration
 - The Central Government expects to transfer CU 10,000,000

Therefore the consideration is CU 10,000,000.
- Step 4 – Allocate the consideration
 - The full grant is linked to the usage of the asset as an early childhood education facility therefore the consideration should be allocated as grant / number of years

Therefore the amount of consideration allocated each year is CU 1,000,000
- Step 5 – Recognize expense

Non-exchange expenses are recognized annually at CU 1,000,000 per year

Non-Exchange Expenses: PSPOA Example 8 cont. (Agenda Item 9.2.3 Appendix A)

Accounting treatment

Non-exchange expenses are recognized when the Local Government Entity satisfies the performance obligation of using the asset as an early childhood education.

This transaction would be accounted for under a PSPOA based standard

Initial recognition of binding arrangement

DR Asset (right to services) CU 10,000,000

CR Liability (grant payable) CU 10,000,000

Note: Presentation may be net or gross depending on earlier discussions

Non-Exchange Expenses: PSPOA Example 8 cont. (Agenda Item 9.2.3 Appendix A)

Payment of grant

DR Liability (grant payable) CU 10,000,000

CR Bank CU 10,000,000

Subsequent recognition of non-exchange expenses

DR Non-exchange expenses CU 1,000,000

CR Asset (right to services) CU 1,000,000

Non-Exchange Expenses: PSPOA Example 8 cont. (Agenda Item 9.2.3 Appendix A)

IPSASB discussion

- The accounting treatment above assumes that the value of the services delivered to the beneficiaries (and controlled by the Central Government) is approximately equal to the value of the capital grant provided. If this were not the case, should the difference between the value of the services delivered and the value of the grant be accounted for separately (outside the PSPOA)?
- If so on what basis should such the value of the services be determined?

Non-Exchange Expenses: PSPOA Example 9 (Agenda Item 9.2.3 Appendix A)

- Grant for rental of additional teaching space
 - Central Govt agrees to provide a grant to a University of CU 50,000
 - The grant is to used to rent extra teaching space
 - The University has provided evidence to the Central Govt that the required rented teaching space will cost CU 50,000
 - The rental agreement is for one year but can be renewed by the University
 - The grant is renewable annually while the extra teaching space is required
 - The teaching space is to be used to deliver university courses to students
 - The grant is repayable (on a pro-rate basis) if the teaching space is not used for the full university year
 - The grant is paid at the beginning of the financial year

Non-Exchange Expenses: PSPOA Example 9 cont. (Agenda Item 9.2.3 Appendix A)

- Step 3 – Determine the consideration

- The Central Government expects to transfer CU 50,000 to the University to rent teaching space for the delivery of university courses. Because the grant is renewable annually only if the space is still required, the present obligation is only for one year.

Therefore the consideration is CU 50,000.

- Step 4 – Allocate the consideration

- The University satisfies its performance obligation by providing teaching services using the rented space. It would therefore be appropriate to allocate the consideration based on rent payable at reporting date.

Therefore the consideration is allocated on the basis of rental payable.

- Step 5 – Recognize expense

Non-exchange expenses are recognized at the amount of rent payable for the reporting period.

Non-Exchange Expenses: PSPOA Example 9 cont. (Agenda Item 9.2.3 Appendix A)

Accounting treatment

Non-exchange expenses are recognized as the University satisfies the performance obligation of providing the teaching space for students.

This transaction would be accounted for under a PSPOA based standard

Initial recognition of binding arrangement

DR Asset (right to services) CU 50,000

CR Liability (grant payable) CU 50,000

Note: Presentation may be net or gross depending on earlier discussions

Non-Exchange Expenses: PSPOA Example 9 cont. (Agenda Item 9.2.3 Appendix A)

Payment of grant

DR Liability (grant payable)	CU 50,000	
CR Bank		CU 50,000

Subsequent recognition of non-exchange expenses

DR Non-exchange expenses	CU 50,000	
CR Asset (right to services)		CU 50,000

Non-Exchange Expenses: PSPOA Example 10 (Agenda Item 9.2.3 Appendix A)

- Payment for the construction of building to house extra teaching space
 - A Central Govt provides payment of CU 15,000,000 to a University
 - The funds are to be used to construct a building to provide extra teaching space
 - The University is required to use the building as teaching space to deliver courses to students for 30 years
 - The payment of CU 15,000,000 is an interest free loan from the Central Govt to the University
 - The payment of CU 15,000,000 is to be made at the beginning of the financial year
 - The Central Govt writes the loan down to the value of the depreciation
 - The Central Govt has an enforcement mechanism to require pro-rata repayment of the loan if the building ceases to be used as teaching space
 - The building is to be depreciated over 30 years on a straight-line basis with no residual

Non-Exchange Expenses: PSPOA Example 10 cont. (Agenda Item 9.2.3 Appendix A)

- Step 3 – Determine the consideration

- The payment of CU 15,000,000 from the Central Government to the University is an interest free loan and not a grant. The concessionary element of the loan is accounted for in accordance with [draft] IPSAS 41, *Financial Instruments*. However, the writing down of the loan by the value of the depreciation incurred is a grant.

Central Government expects to transfer consideration to the value of CU 15,000,000

- Step 4 – Allocate the consideration

- The loan is written down by the value of the depreciation charge each year. Therefore consideration should be allocated on the same basis.

Therefore the consideration is allocated as CU 500,000 each year.

- Step 5 – Recognize expense

Non-exchange expenses are recognized as depreciation is incurred, i.e., at CU 500,000 each year

Non-Exchange Expenses: PSPOA Example 10 cont. (Agenda Item 9.2.3 Appendix A)

Accounting treatment

Non-exchange expenses are recognized as the University satisfies the performance obligation of providing the teaching space for students using the constructed building.

This transaction would be accounted for under a PSPOA based standard

Initial recognition of binding arrangement

DR Asset (right to services) CU 15,000,000

CR Liability (grant payable) CU 15,000,000

Note: Presentation may be net or gross depending on earlier discussions

Non-Exchange Expenses: PSPOA Example 10 cont. (Agenda Item 9.2.3 Appendix A)

Provision of loan

DR Loan Receivable	CU 15,000,000	
CR Bank		CU 15,000,000

Subsequent write down of loan / transfer of grant (annually)

DR Liability (grant payable)	CU 500,000	
CR Loan Receivable		CU 500,000

Subsequent recognition of non-exchange expenses (annually)

DR Non-exchange expenses	CU 500,000	
CR Asset (right to services)		CU 500,000



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