

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 19–22, 2018

From: Amon Dhlwayo

Agenda Item 8

For:

☐ Approval

☒ Discussion

☒ Information

REVENUE – APPROACH TO IFRS 15

Project summary	<p>The aim of the project is to develop one or more IPSASs covering revenue transactions (exchange and non-exchange) in IPSASs.</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9, <i>Revenue from Exchange Transactions</i>, IPSAS 11, <i>Construction Contracts</i> and IPSAS 23, <i>Revenue from Non-Exchange Transactions</i> (Taxes and Transfers).</p>	
Meeting objectives	Topic	Agenda Item
Project management	Instructions up to March 2018 meeting	8.1.1
	Decisions up to March 2018 meeting	8.1.2
	Revenue Roadmap	8.1.3
Discussion Items	Background	8.2.1
	Terminology changes	8.2.2
	Detailed consideration of definitions	8.2.3.
	References to Other Standards	8.2.4

There is considerable overlap between some *Revenue*, *Non-Exchange Expenses* and *Social Benefits* Agenda Items. To avoid replicating material, project management material (Decisions up to the March 2018 meeting; Instructions up to the March 2018 meeting; and project Road Maps), as well as some other supporting items are provided in one Agenda Item, with cross-references in other Agenda Items.

Agenda Item

8.1.1

INSTRUCTIONS UP TO MARCH 2018 MEETING

Meeting	Instruction	Actioned
March 2018	The Board directed staff to reexamine respondent comments to the CP regarding services in-kind and to shape the arguments for each option.	To be undertaken
March 2018	The Board directed to conduct desk research on service in-kind to determine the requirements of other standard setters and also to investigate how not-for-profit entities (not restricted to the public sector) account for services in-kind.	To be undertaken
March 2018	The Board directed staff to further develop the Public Sector Performance Obligation Approach model complete with examples to test the model.	See Agenda Items 9.2.1 and 9.2.2
December 2017	As part of the review of the Work Plan, the IPSASB instructed staff to consider revenue as three separate streams, <i>IFRS 15 Convergence, Updated IPSAS 23 and Grants and other Transfers</i>	
December 2017	The IPSASB requested staff consider how the Specific Matters for Comment and Preliminary Views relate to the different revenue and non-exchange expenses project streams.	
June 2017	All instructions provided up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses	

Agenda Item 8.1.2

DECISIONS UP TO MARCH 2018 MEETING

Date of Decision	Decision
March 2017	The Board decided that IPSAS 23 should be updated.
March 2017	The Board decided to progress with a convergence project on IFRS 15, <i>Revenue from Contracts with Customers</i>
June 2017	All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .

Agenda Item

8.1.3

REVENUE ROADMAP

Meeting	Objective: IPSASB to consider:		
	Revenue from Contracts with Customers (IFRS 15 Convergence)	Limited Update of IPSAS 23	Grants and other Transfers
June 2018	1. Discuss Issues	1. Discuss Issues	1. Discuss Issues
September 2018	1. Discuss Issues 2. Develop ED	1. Discuss Issues 2. Exposure Draft	1. Discuss Issues
December 2018	1. Discuss Issues 2. Develop ED	1. Discuss Issues 2. Exposure Draft	1. Discuss Issues
March 2019	1. Approve ED	1. Approve ED	1. Discuss Issues 2. Exposure Draft
June 2019			1. Discuss Issues 2. Exposure Draft
September 2019			1. Approve ED
December 2019	1. Review Responses	1. Review Responses	
H1 2020	1. Discuss issues 2. Approve IPSAS	1. Discuss issues 2. Approve IPSAS	1. Review Responses
H2 2020			1. Discuss Issues 2. IPSAS
H1 2021			1. Approve IPSAS

Agenda Item

8.2.1

Background

1. Currently, there are three IPSAS that addresses revenue recognition, namely, IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts* and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*¹. IPSAS 9 and 11 are principally based on IAS 11, *Construction Contracts* and IAS 18, *Revenue*. The International Accounting Standards Board (IASB) issued IFRS 15, *Revenue from Contracts with Customers*, which replaced IAS 11, IAS 18, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.
2. The IPSASB Consultation Paper (CP), [Accounting for Revenue and Non-Exchange Expenses](#) developed three categories of public sector revenue transactions based on whether such transactions include performance obligations as defined in IFRS 15 or stipulations as defined in IPSAS 23, as follows:
 - (a) Category A – Revenue transactions with no performance obligations or stipulations
 - (b) Category B – Revenue transactions that contain performance obligations or stipulations, but do not have all the characteristics of a transaction within the scope of IFRS 15.
 - (c) Category C – Revenue transactions that are within the scope of IFRS 15. This category includes transactions involving the transfer of promised goods or services to customers as defined in IFRS 15. The key characteristic of a Category C transaction is that there is a contract with a customer which establishes performance obligations.
3. The IPSASB decided at the March 2018 meeting to replace IPSAS 9 and IPSAS 11 with an IPSAS that is primarily based on IFRS 15 to address the accounting for those transactions that would be within the scope of IFRS 15.
4. The Agenda Item only addresses the convergence of the development of an IPSAS based on IFRS for those revenue transactions that would be within the scope of IFRS 15. The accounting for other revenue transactions is addressed in Agenda Items 9 and 10.

Proposed approach to convergence

5. The development of standards-level requirements and guidance converged with IFRS 15 may require modification to allow the approach to be applied to public sector transactions.
6. The IPSASB policy document, [The Process for Reviewing and Modifying IASB Documents](#), has been followed in considering the extent of developing an IPSAS based on IFRS 15.
7. Modifications to IFRS 15 in developing an IPSAS include:
 - (a) Modifying the definitions and terminologies in IFRS 15 to ensure consistency with the IPSASB Conceptual Framework and to suit the context of the public sector; and
 - (b) Updating the references made to other standards in IFRS 15 to reflect that of IPSAS literature.

¹ IPSAS 9 and 11 address revenue from exchange transactions. IPSAS 23 addresses revenue from non-exchange transactions.

Agenda Item

8.2.2

Terminology changes

Question

1. Whether the IPSASB agrees with the continued use of “fair value” in IFRS 15, *Revenue from Contracts with Customers*, even though the definition of “fair value” in IPSAS is now different to that used in IFRS?
2. Whether the IPSASB agrees with the staff’s proposed terminology changes to IFRS 15, for transactions that would be within the scope of IFRS 15 in the development of an Exposure Draft (ED) on Revenue?

Detail

3. Staff notes that “fair value” is used in IFRS 15. Although the definition of “fair value” in IPSAS is now different to that used in IFRS, the IPSASB has previously agreed to retain the use of the term in convergence projects, pending the completion of the IPSASB’s Measurement project. Staff recommends that this approach is retained when developing an IPSAS based on IFRS 15¹.
4. Staff proposes the following terminology changes for consistency with IPSAS literature and the public sector:

IFRS 15	Proposed IPSAS Terminology
Benefits/generate or enhance resources	Add service potential element
Business unit	Operation
Business segment	Segment
Business combinations	Public Sector Combinations
Contract	Contract or Other Binding Arrangement
Equity	Net Assets
Income	Revenue
Interest income	Interest revenue
Profit or Loss	Surplus or Deficit
Statement of Comprehensive Income	Statement of Changes in Net Assets/Equity

5. These changes are routinely required in IPSAS that are converged with IFRS.

¹ The IPSASB has continued the use of “fair value” in the recent IPSAS. IPSAS 33, *First-Time Adoption of Accrual Basis IPSAS*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 38, *Disclosure of Interests in Other Entities*, IPSAS 39, *Employee Benefits* and IPSAS 40, *Public Sector Combinations*.

Decisions required

6. Does the IPSASB agree with:
 - (a) The continued use of “fair value” consistent with other recent IPSASB projects?
 - (b) The proposed terminology changes to be included in the ED on Revenue?

Agenda Item

8.2.3

Detailed consideration of definitions

Question

- Whether the IPSASB agrees with the staff's proposed changes to the definitions provided in IFRS 15 in the development of an Exposure Draft (ED) on Revenue?

Detail

- Staff also proposes the following definition changes for consistency with IPSAS literature and the public sector:

Term/Definition	IFRS 15 Definition	Proposed IPSAS Definition	Explanation of the changes
Contract	An agreement between two or more parties that creates enforceable rights and obligations.	An agreement between two or more parties that creates enforceable rights and obligations.	<p>No proposed changes to the definition of a Contract.</p> <p>Staff proposes that a definition of Binding Arrangement is added in the ED. Currently there are two definitions in IPSAS.</p> <p>Binding arrangement in terms of IPSAS 32, <i>Service Concession Arrangements (Grantor)</i>.</p> <p>Describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.</p> <p>Binding arrangement in terms of IPSAS 35, <i>Joint arrangement</i>.</p> <p>An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form</p>

Term/Definition	IFRS 15 Definition	Proposed IPSAS Definition	Explanation of the changes
			<p>of a contract. It includes rights from contracts or other legal rights.</p> <p>Staff proposes that a definition of Binding Arrangements in line with IPSAS 35 is used as it includes rights from contracts or other legal rights.</p>
Contract Asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).	<p>No proposed changes to the definition.</p> <p>Staff proposes further clarification that a Contract Asset may arise from Contracts or Other Binding Arrangement as rights and obligations are not only established through legal contracts, but can also be established through equivalent enforceable binding arrangements.</p>
Contract Liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.	<p>No proposed changes to the definition.</p> <p>Staff proposes further clarification that a Contract Liability may arise from Contracts or Other Binding Arrangement as rights and obligations are not only established through legal contracts, but can also be established through equivalent enforceable binding arrangements.</p>

Term/Definition	IFRS 15 Definition	Proposed IPSAS Definition	Explanation of the changes
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.	A party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.	Staff proposes that the reference to 'ordinary' activities in IFRS 15 is removed in the proposed IPSAS definition. The current IPSASB literature does not generally make a distinction between ordinary activities and activities outside the ordinary course of operations, because it is not straightforward to determine what an ordinary activity is in the public sector due to the multi-functional nature of many public sector entities.
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.	No definition added. Refer below for the discussion on Revenue .	Staff propose that the term "income" is removed because IPSAS literature does not use the term "Income".

Term/Definition	IFRS 15 Definition	Proposed IPSAS Definition	Explanation of the changes
Performance obligation	<p>A promise in a contract with a customer to transfer to the customer either:</p> <ul style="list-style-type: none"> (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. 	<p>A promise in a contract or other binding arrangement with a customer to transfer to the customer either:</p> <ul style="list-style-type: none"> (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. 	<p>Staff propose that we add Other Binding Arrangement to the definition of Performance obligation.</p>
Revenue	<p>Income arising in the course of an entity's ordinary activities.</p>	<p>Revenue is defined in IPSAS 1, <i>Presentation of Financial Statements</i>, as follows:</p> <p>The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.</p> <p>Revenue is defined in <i>the Conceptual Framework</i> as follows:</p> <p>Increases in the net financial position of the entity, other than increases arising from ownership contributions.</p>	<p>Staff proposes that the definition of revenue as per IPSAS 1 is adopted because it is more comprehensive.</p> <p>IPSAS literature does not include a reference to ordinary activities because it is not straightforward to determine what an ordinary activity is in the public sector.</p>

Term/Definition	IFRS 15 Definition	Proposed IPSAS Definition	Explanation of the changes
Stand-alone selling price (of a good or service)	The price at which an entity would sell a promised good or service separately to a customer.	The price at which an entity would sell a promised good or service separately to a customer.	No proposed changes to the definition.
Transaction price (for a contract with a customer)	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	The change that is required is to the term “Transaction price”, and not the definition. There is a need to amend to “Transaction price (for a contract or other binding arrangement with a customer).

Decisions required

3. Does the IPSASB agree with:
 - (a) The proposed definitions to be included in the ED on Revenue?
 - (b) If not, what changes to the proposed definitions are required?

Agenda Item

8.2.4

References to Other Standards

Question

1. Whether the IPSASB agrees with the staff's proposed changes to the references to other standards in IFRS 15, *Revenue from Contracts with Customers*, for transactions classified as Category C in the CP in the development of an Exposure Draft (ED) on Revenue?

Detail

2. When references to other standards appear in IFRS 15, those references are only retained (but with IPSAS referencing) when a current equivalent IPSAS exists.
3. However, there are certain standards that are referenced in IFRS 15 for which no equivalent IPSAS is available because such literature are still being developed or there is no guidance at all. Therefore in these circumstances it is necessary to reference to "in accordance with the relevant international or national accounting standard dealing with [insert topic]".

References to Other standards in IFRS 15	Equivalent IPSAS
IAS 2, <i>Inventories</i>	IPSAS 12, <i>Inventories</i>
IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 11, <i>Construction Contracts</i>	IPSAS 11, <i>Construction Contracts</i>
IAS 16, <i>Property, Plant and Equipment</i>	IPSAS 17, <i>Property, Plant and Equipment</i>
IAS 18, <i>Revenue</i>	IPSAS 9, <i>Revenue from Exchange Transactions</i>
IAS 27, <i>Separate Financial Statements</i>	IPSAS 34, <i>Separate Financial Statements</i>
IAS 28, <i>Investments in Associates and Joint Venture</i>	IPSAS 36, <i>Investments in Associates and Joint Ventures</i>
IAS 36, <i>Impairment of Assets</i>	IPSAS 26, <i>Impairment of Cash-Generating Assets</i>
IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	IAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 38, <i>Intangible Assets</i>	IAS 31, <i>Intangible Assets</i>
IAS 39, <i>Financial Instruments: Recognition and Measurement</i>	IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i>
IFRS 8, <i>Operating Segments</i>	IPSAS 18, <i>Segment Reporting</i>
IFRS 9, <i>Financial Instruments</i>	["Draft"] IPSAS 41, <i>Financial Instruments</i>
IFRS 10, <i>Consolidated Financial Statements</i>	IPSAS 35, <i>Consolidated Financial Statements</i>
IFRS 11, <i>Joint Arrangements</i>	IPSAS 37, <i>Joint Arrangements</i>

References to Other standards in IFRS 15	Equivalent IPSAS
IFRS 16, <i>Leases</i>	<p>IPSAS 13, <i>Leases</i>.</p> <p>References to IFRS 16 can be replaced by references to IPSAS 13, <i>Leases</i>, pending the completion of the IPSASB's new leasing standard. The references to IFRS 16 in IFRS 15 are to lease contracts being excluded from the scope of IFRS 15.</p>
IFRS 17, <i>Insurance Contracts</i>	<p>No Equivalent IPSAS and no standard is being developed in the IPSAS literature.</p> <p>Reference will be made as "in accordance with the relevant international or national accounting standard dealing with insurance contracts".</p>

Decisions required

4. Does the IPSASB agree with the proposals to deal with references to other standards in the ED?