

Item 10: Revenue with Performance Obligations

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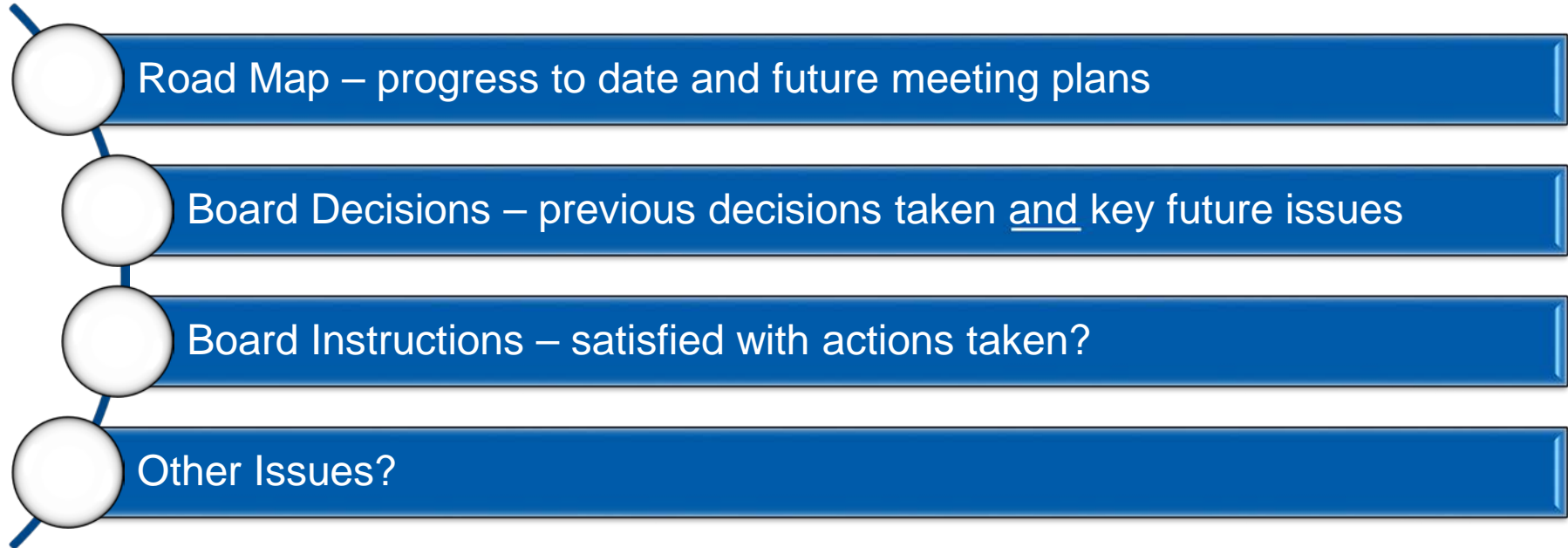
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Introduction – Section Outline

Topic	Agenda Item
Objective	10.2.1
Probability Criterion (Paragraph 8(e))	10.2.2
Binding Arrangement Asset and Liability	10.2.3
Definitions and Terminology Changes	10.2.4
Illustrative Examples	10.2.5
[draft] ED 70, <i>Revenue with Performance Obligations</i>	10.3

Objective (1/3) (Agenda Item 10.2.1)

- Objective of [draft] ED 70, **changed to align** with the Public Sector Performance Obligation Approach (PSPOA).
- Objective section includes a paragraph to establish the **5 step revenue recognition model**.
- Meeting the Objective paragraphs have been **relocated** to the Application Guidance section to fit with the IPSAS style.
- **Does the IPSASB agree with the Task Force recommendations?**

Marked Up Wording of Objective (2/3)

(Agenda Item 10.2.1)

Objective

1. The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract binding arrangements with a customer purchaser that include performance obligations to transfer promised goods or services to the purchaser or third-party beneficiary.
2. To meet the objectives in paragraph 1, this [draft] Standard requires a reporting entity to recognize revenue by applying the following steps:
 - (a) Step 1: Identifying the binding arrangement with a purchaser (see paragraphs 8-20);
 - (b) Step 2: Identifying the performance obligations in the binding arrangement (see paragraphs 21-29);
 - (c) Step 3: Determining the transaction price (see paragraphs 45-71);
 - (d) Step 4: Allocating the transaction price to the performance obligations in the binding arrangement (see paragraphs 45 and 72-85); and
 - (e) Step 5: Recognizing revenue when (or as) the entity satisfies a performance obligation (see paragraphs 30-44).

Marked Up Wording of Objective (3/3)

(Agenda Item 10.2.1)

~~Meeting the Objective~~

- ~~2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to purchasers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.~~
- ~~3. An entity shall consider the terms of the binding arrangement and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to binding arrangements with similar characteristics and in similar circumstances.~~
- ~~4. This [draft] Standard specifies the accounting for an individual binding arrangement with a purchaser. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of binding arrangements (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual binding arrangements (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.~~

Probability of Collection of Consideration (Paragraph 8(e) (1/1) (Agenda Item 10.2.2)

- Paragraph 8(e) states that *an entity can apply the revenue recognition model when it is probable that the entity will collect the consideration to which it will be entitled in exchange from goods or services that will be transferred to the purchaser or third-party beneficiary.*
- Task Force was asked to consider paragraph 8(e) and whether the **collection of consideration needed to be probable**, because some entities are **compelled to enter into binding arrangements** where collection is not probable.
- The Task Force considered **whether to remove 8(e), modify 8(e), or retain 8(e)?**
- The Task Force recommends **retaining 8(e), but adding a disclosure.**
- **Does the IPSASB agree with the Task Force recommendations?**

Binding Arrangement Asset and Binding Arrangement Liability (1/2) (Agenda Item 10.2.3)

- The Task Force was asked whether it was necessary to **retain the definitions.**
- Task Force **recommends retaining the definitions.**
- It is important for **distinguishing** between a binding arrangement asset/liability (conditional) and a receivable/payable (unconditional).
- **Does the IPSASB agree with the Task Force recommendations?**

Binding Arrangement Asset and Binding Arrangement Liability (2/2) (Agenda Item 10.2.3)

Binding Arrangement Asset

- A binding arrangement asset is an **entity's right to consideration** in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Binding Arrangement Liability

- A binding arrangement liability is an **entity's obligation to transfer goods or services** to a purchaser or third-party beneficiary for which the entity has received consideration (or the amount is due) from the purchaser.

Definitions and Terminology Changes (1/2)

(Agenda Item 10.2.4)

The Task Force proposed to:

- **Define** “Third-party Beneficiary” as *an entity, household or individual who will benefit from a transaction made between two other parties by receiving assets, goods or services.*
- **Add** “Third-party beneficiary” to “Purchaser”.
- **Not define**, “Counterparty”.
- **Retain** the term and definition of, “Transaction Price”.
- **Does the IPSASB agree with the Task Force recommendations?**

Definitions and Terminology Changes (2/2) (Agenda Item 10.2.4)

IFRS Terminology	Proposed Terminology
Distinct used in relation with goods or services .	Separately identifiable.
Distinct goods or services used in relation with performance obligations .	Sufficiently specific.
Stand-alone selling price.	Stand-alone price.
Sell and Sold.	Provide and Provided.

Does the IPSASB agree with the Terminology proposed by the Task Force?

Illustrative Examples (1/2) (Agenda Item 10.2.5)

- **The List of Illustrative Examples are shown in a Separate Handout.**
- The Task Force has not considered detailed wording or editing for examples at this stage.
- **The Task Force's view is to **retain or modify** most IFRS 15 examples as they illustrate application of different parts of the [draft] Standard.**
- **The Task Force's view is that 5 (FIVE) of the IFRS 15 examples **should be removed** as they are not relevant to the public sector (Examples 36, 37 part 1, 44, 57, and 63).**
- **Does the IPSASB agree with the examples to be retained or modified?**
- **Does the IPSASB agree with the examples to be removed?**

Illustrative Examples (2/2) (Agenda Item 10.2.5)

- The Task Force's view is that additional examples need to be added to illustrate material that has been added to the [draft] Standard.
- Example on **Scope** that distinguish arrangements in ED 70 and ED 71.
- Example on **Hybrid Transactions** that contain components in ED 70 and ED 71.
- Example on **Enforceability by Mechanisms other than Legal means**.
- Examples illustrating **Three-party arrangements**.
- Does the IPSASB agree with the additional examples?
- Are there any other examples that should be included?

[draft] ED 70 (1/1) (Agenda Item 10.3)

- The full marked-up ED 70, *Revenue with Performance Obligations* was provided for information.
- Does the IPSASB have any other substantive points on paragraphs 1 to 108 or the Application Guidance paragraphs of the [draft] Standard that need to be discussed? (Paragraphs 109–139 will be discussed in September 2019).
- Please provide any editorial changes directly to staff.



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