

Agenda Item 11: **ED 71, *Revenue without Performance*** ***Obligations***

Joanna Spencer

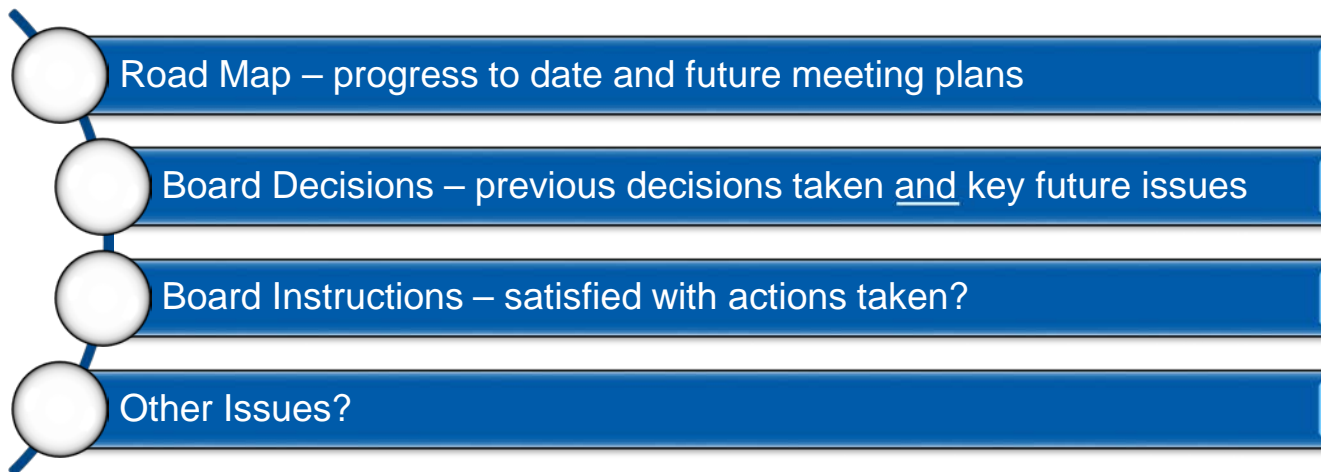
Manager, Standards Development and
Technical Projects

IPSASB Meeting

Toronto, Canada

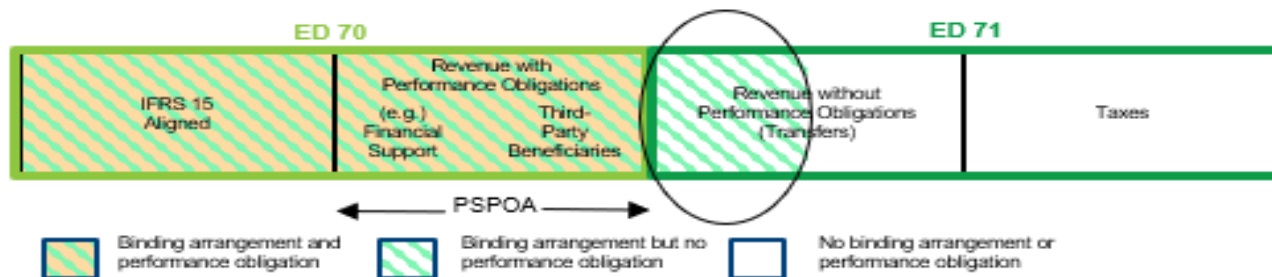
June 18–21, 2019

Project management: Stocktake



ED 71 - Revenue Options

- March 2019 Instruction
 - Consider if there are any transactions that are enforceable but have obligations (not performance obligations) and possible



ED 71 - Revenue Options

Non-enforceable transactions with no performance obligations or 'terms' related to the usage of the resources.

- Taxes
- Fines
- General Donation

Non-enforceable transactions with no performance obligations but with 'terms' related to the usage of the resources.

- Donation for a specific purpose

ED 71 - Revenue Options continued

Enforceable transactions with no performance obligations but with 'terms' related to the usage of the resources.

- Fund an outcome focused specific project
- Research grant – intellectual property stays with the entity

Enforceable transactions with performance obligations related to the usage of the resources.

- Provide laptops to children in government education
- Purchase four fighter jets

Accounting for the Credit

Debit – either cash or a receivable

Credit – three options

- Recognize as revenue on receipt
- Record a liability and recognize revenue with reference to the ‘terms’ of the arrangement
- Record an ‘other obligation’

Accounting for the Credit – Type (a) & (b)

Type (a) transactions – immediate revenue recognition

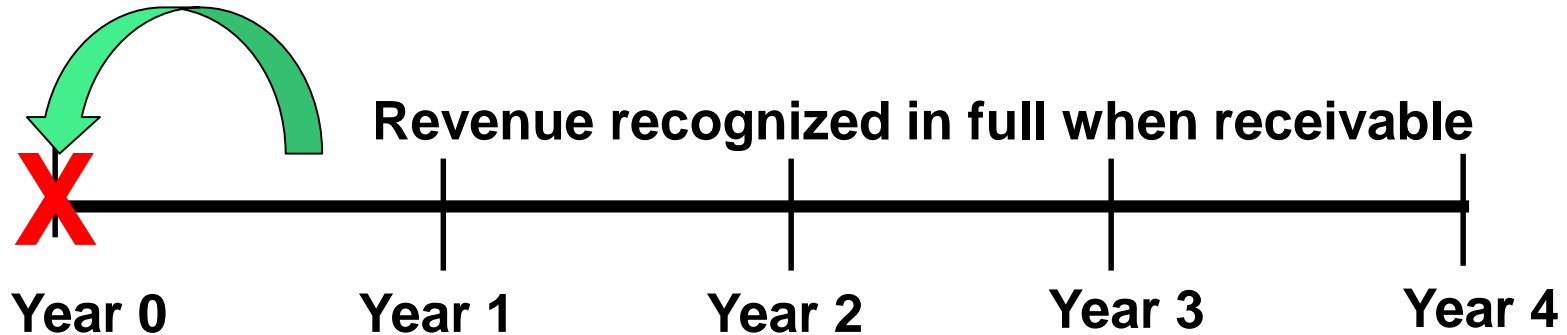
Type (b) transactions – immediate revenue recognition – presentation and disclosure options may provide useful information

December 2018 – if unenforceable – immediate recognition

Accounting for the Credit – Type (c) Outcome Focused Project

❑ View 1 – Immediate Revenue Recognition

- ❖ Rationale: Because there is no specificity about goods and services to be delivered there is no present obligation. A breach of the agreement is the past event that gives rise to a liability.



Accounting for the Credit – Type (c) Outcome Focused Project

View 1 – Immediate Recognition

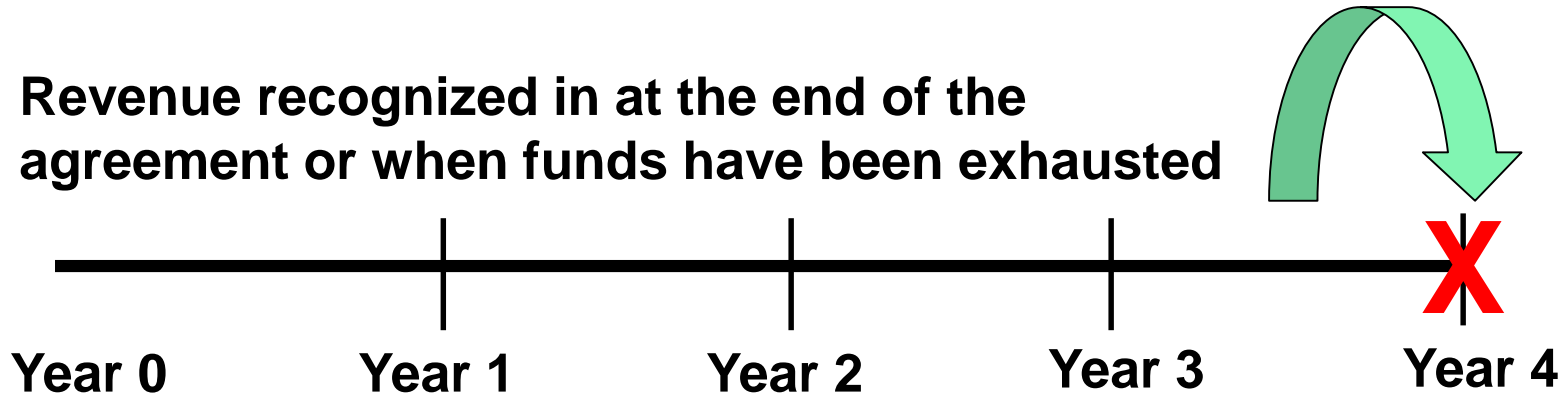
Advantages	Disadvantages
<ul style="list-style-type: none">• Consistent with Framework	<ul style="list-style-type: none">• Introduces volatility
<ul style="list-style-type: none">• Disclosure can address information loss	

Accounting for the Credit – Type (c) Outcome Focused Project cont.

❑ View 2 – Deferral Approach – Option 1

- ❖ Rationale: The past event is the signing of the agreement and the entity is liable for an outflow of resources.

Revenue recognized in at the end of the agreement or when funds have been exhausted



Accounting for the Credit – Type (c) Outcome Focused Project

View 2 – Deferral Approach – Option 1

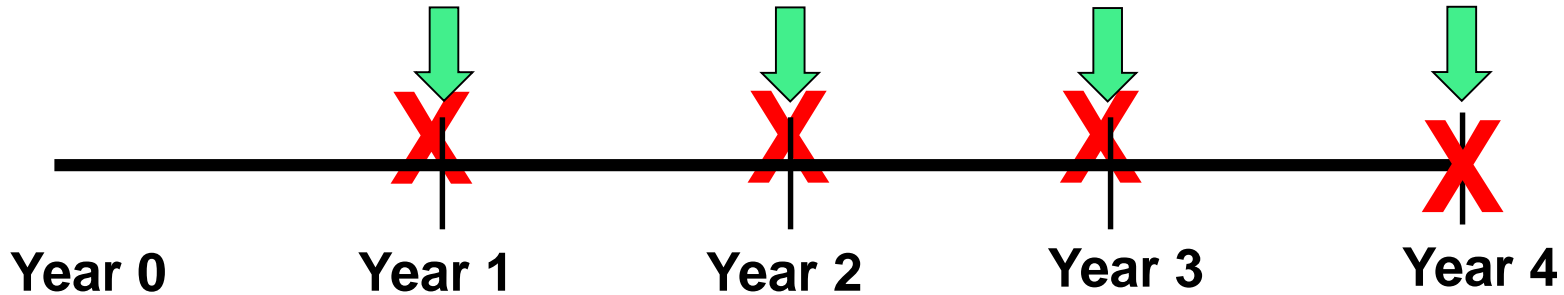
Advantages	Disadvantages
<ul style="list-style-type: none">Entity has a liability until all the terms of the arrangement are fulfilledFaithfully represents the ability of the resource provider right to recover funds	<ul style="list-style-type: none">Questionable whether there is a liabilityFunds are only repayable at the end of the agreement if not used as per the terms of the agreement

Accounting for the Credit – Type (c) Outcome Focused Project cont.

❑ View 2 – Deferral Approach – Option 2

- ❖ Rationale: The signing of the agreement is the past event and the recipient has a present obligation for a outflow of resources. May provide more relevant and faithfully representative information in regards to the entity's financial performance and financial position.

Revenue recognized on a systematic or straight-line basis



Accounting for the Credit – Type (c) Outcome Focused Project

View 2 – Deferral Approach – Option 2

Advantages

- Provides relevant information that faithfully represents the financial position and financial performance of the recipient
- Better reflects the operational activities of the recipient

Disadvantages

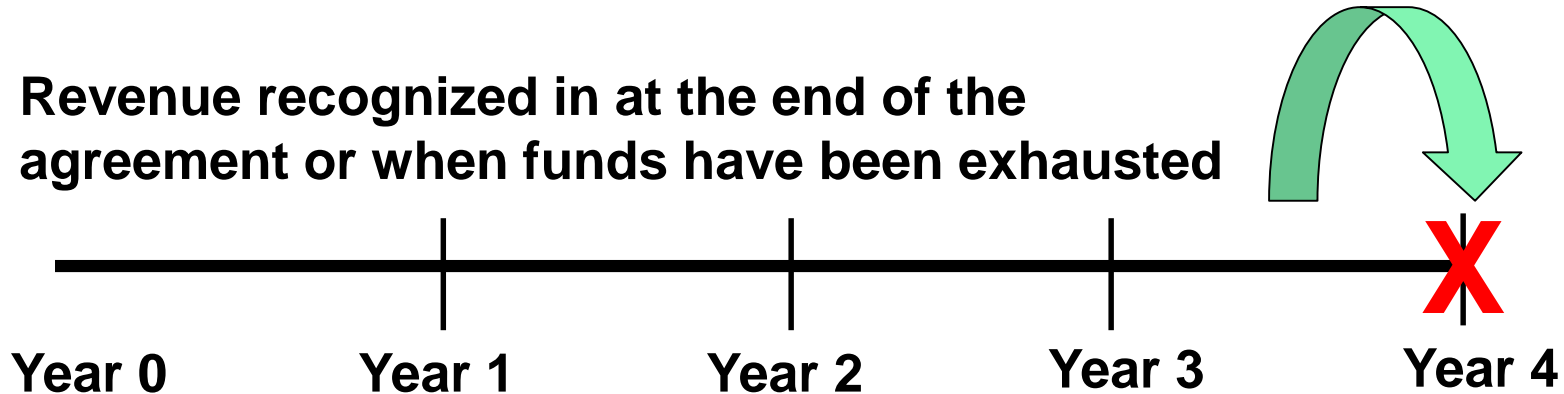
- Questionable whether there is a liability
- Can be considered to be matching

Accounting for the Credit – Type (c) Outcome Focused Project cont.

❑ View 2 – Deferral Approach – Option 3

- ❖ Rationale: The past event is the signing of the agreement and creates an ‘other obligation’
The entity does not have a present obligation and can avoid the outflow of resources
however, may provide more relevant and faithfully representative information.

**Revenue recognized in at the end of the
agreement or when funds have been exhausted**



Accounting for the Credit – Type (c) Outcome Focused Project

View 2 – Deferral Approach – Option 3

Advantages

- Provides relevant information that faithfully represents the financial position and financial performance of the recipient
- More transparent than Option 2 as it acknowledges there is no liability

Disadvantages

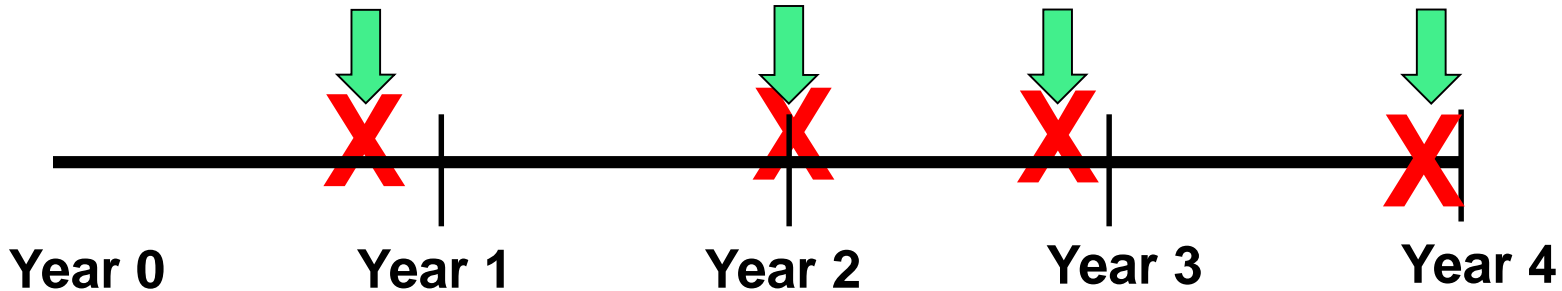
- Recognized an item that is not an element in the Conceptual Framework
- Allows an entity to recognize an asset up front without having to perform at all

Accounting for the Credit – Type (c) Research Grant

❑ View 2 – Deferral Approach – Option 4

- ❖ Rationale: Signing of the agreement is the past event and the entity is liable for an outflow of resources. If the recipient doesn't use the resources as specified the provider can recover the funds at milestone stages of the agreement

Revenue recognized as milestones in the agreement are met



Accounting for the Credit – Type (c) Research Grant

View 2 – Deferral Approach – Option 4

Advantages	Disadvantages
<ul style="list-style-type: none">Provides information on a recipient's liabilities and revenue	<ul style="list-style-type: none">Questionable whether there is a liability
<ul style="list-style-type: none">Faithfully represents the resource providers right to recover funds if not used as per the 'terms' of the agreement	
<ul style="list-style-type: none">Better reflects the operational activities of the recipient	

Question for the Board

Staff Recommendation:

Enforceable transactions that do not have performance obligations, revenue should be recognized when receivable.

Does the IPSASB agree?

Agenda Item 11.2.2

Capital Grants

ED 71 – Capital Grants

March 2019 IPSASB meeting, the Board confirmed that transactions without performance obligations will be accounted for in [draft] ED 71, *Revenue without Performance Obligations*

Capital Grants do not meet the performance obligation requirements as there is No Transfer of goods and services to either the purchaser or a third-party beneficiary

Background

Capital Grants not explicitly addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Respondents to CP, *Accounting for Revenue and Non-Exchange Expenses* supported the inclusion of specific Capital Grant accounting

Diverse methods for accounting for Capital Grants

What is a Capital Grant?

Not defined in IPSAS

A transaction in which one entity (the grantor) provides an asset, or cash with a requirement that the recipient acquire or construct an asset, without receiving, from the recipient, any good, service or asset.

Accounting for the Credit

Debit – either cash or a receivable

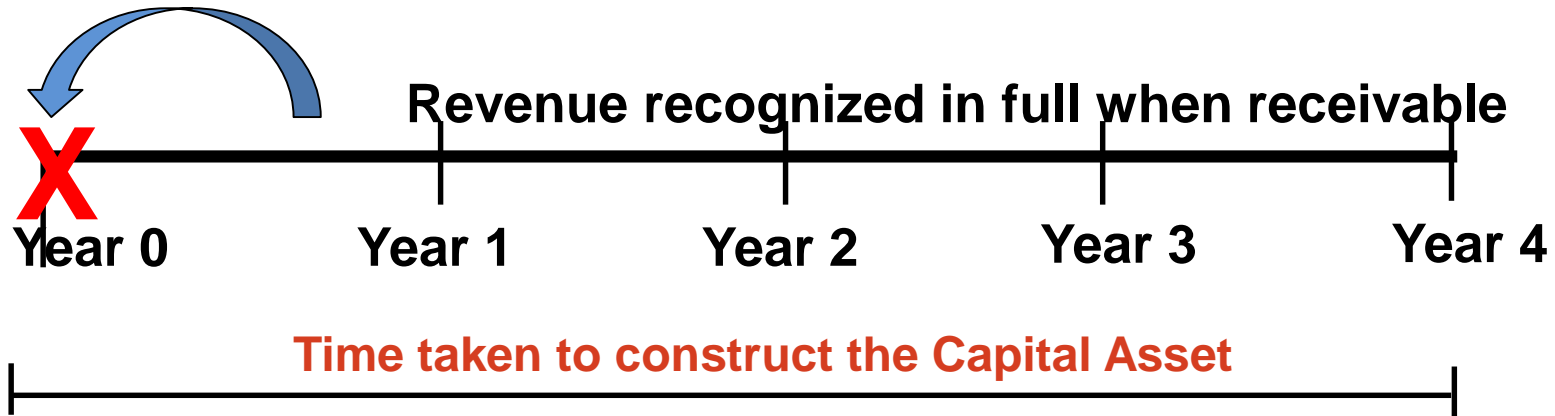
Credit – four options

- Immediate recognition
- Recognition over the construction period
- Recognition in accordance with the obligations in the arrangement
- Recognize over the intend life of the use of the asset

Accounting for the Credit Immediate Recognition

❑ Immediate Revenue Recognition

- Rationale: There is no performance obligation therefore there is no present obligation. There may be a contingent liability due to the potential refund of funds which would be disclosed in the notes to the financial statements.



Accounting for the Credit Defer Recognition

3 patterns of
revenue
recognition if
deferred

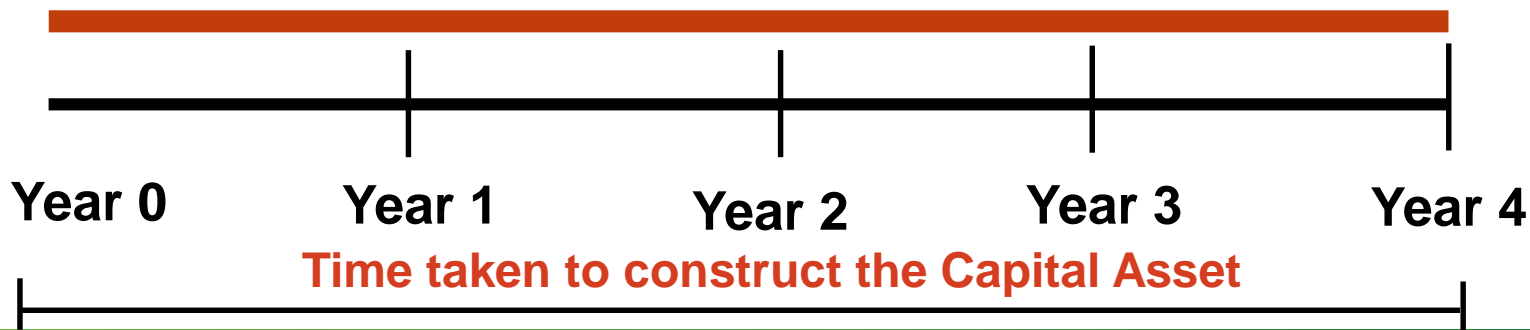
- Recognize of the period of construction
- Recognize in accordance with any specific requirements of the agreement
- Recognize over the life of the asset

Accounting for the Credit Deferral Approach

❑ Recognize over the period of construction

- ❖ Rationale: Presents relevant and faithfully representative information. Consumption of resources may be seen as proxy for performance against non-specific terms in the arrangement.

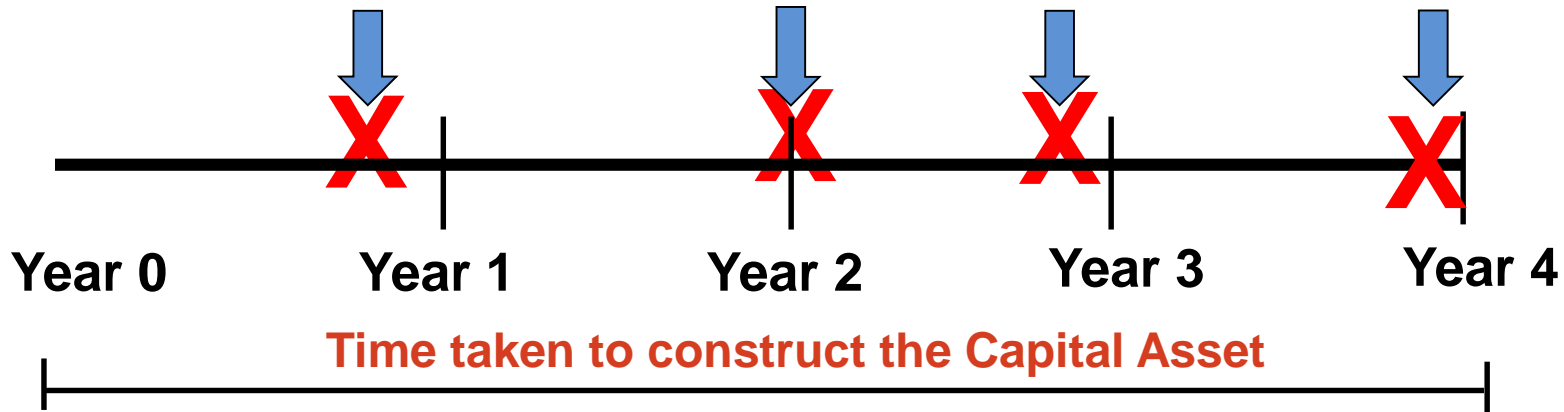
Revenue recognized on a systematic or straight-line basis



Accounting for the Credit Deferral Approach

- ❑ **Recognize in accordance with any specific requirements of the agreement**
 - ❖ Rationale: Analogous to ED 70 requirements. Terms need to be narrow

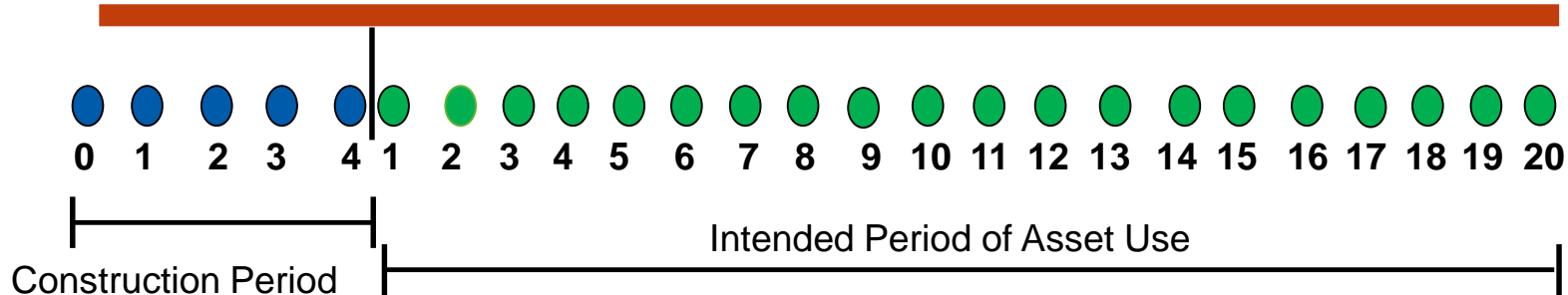
Revenue recognized as milestones in the agreement are met



Accounting for the Credit Deferral Approach

- ❑ Recognize over the life the asset of its intended use
 - Grant is provided to PROCURE an asset and then USE that asset for service delivery

Revenue recognized over the construction period and the life of the intended use of the asset



Questions for the Board

Staff recommendation

Revenue related to Capital Grants should initially be deferred and subsequently recognized by analogy to ED 70 by either:

- According to the specific requirements of the arrangement
- Over the period of construction on a systematic basis (if the arrangement does not include specific requirements).

Does the IPSASB agree with the staff recommendation?



www.ipsasb.org
