Agenda Item 10: Revenue

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Revenue-Modifications to IFRS 15 for application in the Public Sector

Session Outline

Agenda Item 10.2.1

- Proposed Scope.
- Proposed Terminology Changes to “Customer”.
- Identification/Definition of a Contract.
Reason to Assess the Scope (Agenda Item 10.2.1)

**Ordinary Activities**
- IFRS 15 is only underpinned by Contract.
- Public sector is underpinned by Binding Arrangements

**Activities Outside the Ordinary course of business**

**Gross inflows of Economic benefits or Service potential (not Contribution from Owners).**

**Some Transactions may need to be accounted in Other Standards**
- IPSAS 9 Revenue from sale of goods and services, dividends, interest and royalties.
- IPSAS 11 Services rendered from Construction of Assets
Revenue-Modifications to IFRS 15 for application in the Public Sector

Proposed Scope

In scope – Similar to IFRS 15

- Foreign Exchange Gains (IPSAS 4)
- Non monetary exchanges between entities in the same line of business.
- Binding Arrangements Financial Instruments, Leases and Insurance (IPSAS 41, 13/ED 64 and Insurance National Standards).
- Gains on sale of Non-Current Assets (IPSAS 16, 17 and 31)
- Revenue from Binding Arrangements with Customers [Includes Licenses (IP and non-IP) and Royalties]
- Interest revenue from Leases (IPSAS 13/ED 64).
- Changes in fair value of Biological Assets and Investment Properties (IPSAS 27 and IPSAS 16 respectively)
- Revenue from Dividends (IPSAS 41)
- Interest revenue from Financial Instruments (IPSAS 34, 35, 36, 37 and 41).

In scope of Other Standards

- Revenue from Dividends (IPSAS 41)
- Interest revenue from Financial Instruments (IPSAS 34, 35, 36, 37 and 41).
Non monetary Exchanges – Appropriateness of Example

- Some jurisdictions state that the examples used for non-monetary exchanges are not suitable for the public sector.
- IFRS 15 refers to non-monetary exchanges of Oil.
- IPSAS 9 refers to non-monetary exchanges of Oil and Milk.
- Staff propose use of the example of Electricity. (Similar to IPSAS 41, Financial Instruments).
1. Does the IPSASB agree with the Proposed Scope?

2. Does the IPSASB agree with changing the example of non-monetary exchanges?
Customer – Various Terms Assessed
(Agenda Item 10.2.1)

These terms were not Considered
Counterparties are not Customers in Tripartite Arrangements

Resource Provider

Payer

Payee

Counterparty

Commissioner/Commissioning Body

Buyer

Another Party

Purchaser

Other Party

Beneficiary

User

Consumer

Service Recipient

Resource Recipient
Customer – Tripartite Arrangements
(Agenda Item 10.2.1)

Public Sector Transactions often involve Three Parties

- **Resource provider** – Customer that provides/pays the consideration. Not necessarily the party that receives the goods and services.
- **Resource/service recipient** - Receives the consideration and delivers goods and services.
- **Beneficiary of those services** - Individuals or households.
- Example, Central government (Customer) provides funding to a Regional Health Department (Resource Recipient) to conduct bone density screening for Citizens (Beneficiaries) over 55 years of age.
Revenue-Modifications to IFRS 15 for application in the Public Sector

Customer – Various Terms Assessed
(Agenda Item 10.2.1)

- **Buyer (IAS 18)** and **Contractor (IAS 11)** replaced by IASB when issued IFRS 15.

- **Customer** is more suitable for the private sector. (Aligned to IFRS 15).

- Another Party, Counterparty, Other Party, Payee and Payer are not acknowledged in the Conceptual Framework.
- Not widespread in IPSAS literature.

- **Commissioner** refers to a person appointed to a specific role.
- **Commissioning Body** refers to a group of people charged with certain duties. (Commission of Inquiry/Government Agency/Board).
Proposed Terms - (Agenda Item 10.2.1)

<table>
<thead>
<tr>
<th>Recommended Term</th>
<th>Alternative Term</th>
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<tbody>
<tr>
<td><strong>Resource Provider</strong></td>
<td><strong>Purchaser</strong></td>
</tr>
<tr>
<td>• Conceptual Framework.</td>
<td>• Widespread in the IPSAS literature.</td>
</tr>
<tr>
<td>• Suitable for Public Sector Tripartite Arrangements.</td>
<td>• Suitable for Public Sector Tripartite Arrangements.</td>
</tr>
<tr>
<td>• No proper definition in the Conceptual Framework and Other IPSAS literature.</td>
<td>• No proper definition in the Conceptual Framework and Other IPSAS literature.</td>
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</table>
Proposed Term – Decisions

1. Does the IPSASB agree with the term “Resource Provider”?

2. If not, does the IPSASB agree with the alternative term, “Purchaser”?
### Identification/Definition of a Contract (Agenda Item 10.2.1)

<table>
<thead>
<tr>
<th>#</th>
<th>Criteria to be met (IFRS 15)</th>
<th>Applicability to Public Sector</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Parties have <strong>approved</strong> the Contract.</td>
<td><strong>Yes = Binding Arrangement</strong></td>
</tr>
<tr>
<td>2.</td>
<td>Party’s <strong>rights</strong> regarding the goods or services to be transferred are <strong>identified</strong>.</td>
<td><strong>Yes</strong></td>
</tr>
<tr>
<td>3.</td>
<td><strong>Payment terms</strong> identified.</td>
<td><strong>Yes</strong></td>
</tr>
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<td>4.</td>
<td>Commercial substance.</td>
<td><strong>Yes = Economic Substance.</strong></td>
</tr>
<tr>
<td>5.</td>
<td><strong>Collection of consideration is Probable</strong> <em>(Customer’s Ability and Intention to Pay)</em></td>
<td><strong>?</strong></td>
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</table>
Revenue-Modifications to IFRS 15 for application in the Public Sector

Identification/Definition of a Contract continued (Agenda Item 10.2.1)

Implications of the Probability Criterion


2. If collection of consideration IS PROBABLE = In the Scope of IFRS 15.

3. Private sector entities generally enter into Contracts which are probable to collect payment. Small Population of Contracts are not Probable.

4. Public sector entities have numerous contracts which are not probable. Does that mean that such contracts are not in the scope of Revenue?
Revenue-Modifications to IFRS 15 for application in the Public Sector

Identification/Definition of a Contract continued (Agenda Item 10.2.1)

**Option 1**
Remove Step 5
(More contracts are in the scope).
- Revenue recognized for all contracts.
- Impairment assessed subsequently.
- Accountability (Management of Revenue and Receivables).
- Premature recognition of revenue. (Departure from IPSAS).

**Option 2**
Retain 5 Steps
(Similar to IFRS 15. Few contracts in scope).
- Revenue is recognized when probable and not recognized when not probable.
- Continuous Assessment.
- Aligned to IPSAS 9 & IFRS 15.
- Faithful representation (Only probable items are recognized).
- Increased subjectivity (Assessing probability).

**Option 3**
Retain 5 Steps with Additional Application Guidance to Step 5.
- Application Guidance that permits and not require recognition of contracts that are not probable as there are material to the public sector.
- Similar to IPSAS 23 (Services-in Kind).
- Extensive Disclosures.
- Options reduce Comparability.
1. Which Option does the IPSASB elect?