Agenda Item 11: Grants and Other Transfers – Time Requirements

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IPSASB Meeting
Kuala Lumpur, Malaysia
December 4–7, 2018
Objective of Session

To review respondent responses to SMC 3 of the Consultation Paper, *Accounting for Revenue and Non-Exchange Transactions*

Assess the options for accounting for transactions with time requirements

Provide direction to staff about which approach(es) should be included in a [draft] exposure draft on Revenue
Time requirements – the issues

Identified in the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* as an IPSAS 23 application issue because it is too restrictive

- Revenue recognized on day one may show a surplus
- Does not communicate the donor’s intention for funding to be used over a number of periods
- May hinder the usefulness of the information provided

IPSAS 23 requirements interpreted differently – condition vs restriction – leads to a lack of comparability
Updated IPSAS 23 or PSPOA?

Does the transaction arise from a contract or other binding arrangement?

- Yes
  - Does the transaction have a performance obligation(s) as defined in IPSAS XX?
    - Yes: Use IPSAS XX
    - No: Use Updated IPSAS 23

- No: Use Updated IPSAS 23
Enforceability

Definition in CP

• A time requirement is a provision in an agreement indicating the resource provider’s intention that the resources are to be used by the resource recipient in a specific time period or periods. However, there is no explicit return obligation on the resource recipient if the resources are not used in those periods.

Based on this definition – transfers with timing requirements would be addressed in an updated IPSAS 23.

However – if there was a return obligation if not used in the time period intended, need to determine if there is a performance obligation.
Performance Obligation

Definition in [draft] ED

- Performance obligation is a promise in a binding arrangement with a customer to transfer to the customer either:
  - A good or service (or a bundle of goods or services) that is distinct; or
  - A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

No transfer of distinct goods or services – time is not a performance obligation

Board tentatively agreed to retain transfer – performance obligation to be revisited in March 2019

If no transfer – there is no asset for Non-exchange expenses. PSPOA not feasible unless time requirements classified as an ‘other obligation’ therefore ‘other resource’ for expense side
Time requirements – Options in CP

The CP provided four approaches to address time requirements:

- Option (a) – Require enhanced display and/or disclosure
- Option (b) – Classify time requirements as a condition
- Option (c) – Classify transfers with time requirements as ‘other obligations’
- Option (d) – Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance
Time requirements – Feedback

- Require enhanced display/disclosure - 7
- Classify as a condition - 2
- Classify as an other obligation - 6
- Recognize in net assets/equity and recycle - 10
- Alternative option - 2
- None of the options - 1
- Response not clear - 3
- No comment - 7
Geographical Location of Respondents – Display/Disclosure

OPTION (A) ENHANCED DISPLAY AND/OR DISCLOSURE – 7 RESPONDENTS

- North America: 29%
- Europe: 14%
- Asia: 14%
- Australasia and Oceania: 29%
- Africa and Middle East: 14%
- North America: 29%
**Option (a) – Enhanced Display and/or Disclosure**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stays true to the definition of elements in the Conceptual Framework</td>
<td>Does not show on the financial statements that the recipient will use the resources in future periods</td>
</tr>
<tr>
<td>The current IPSAS literature does not prohibit this option</td>
<td>Does not resolve the mismatch between the revenue recognition and when the resources are consumed</td>
</tr>
<tr>
<td>Gives the recipient a method of communicating its performance story</td>
<td>Suggests reserve accounting which may be seen as a backward step for some jurisdictions</td>
</tr>
<tr>
<td>Help educate users not to focus on the surplus/deficit but to look at what makes up that surplus/deficit</td>
<td></td>
</tr>
</tbody>
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**Time requirements – Display/Disclosure**

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**IPSASB**

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## Agenda Item 11: Grants and Other Transfers – Time Requirements

### Time requirements – Display/Disclosure

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statement of Financial Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>Recognized in full on receipt</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Expense</td>
<td>Recognized as incurred</td>
<td>Recognized as incurred</td>
<td>Recognized as incurred</td>
<td></td>
</tr>
<tr>
<td><strong>Statement of Financial Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash/Bank</strong></td>
<td>Debit on receipt</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Accumulated Surplus or Deficit (Restricted)</strong></td>
<td>At year end, displayed or disclosed as restricted</td>
<td>Reduced as grant is used</td>
<td>Reduced as grant is used</td>
<td>Reduced as grant is used</td>
</tr>
</tbody>
</table>
Disclaimer re Examples

Recognition of transfer will be based on control – receipt of funding was used purely for illustrative purposes

How revenue would be recognised over the time period could be one of four ways:

- At the beginning of the period
- On a straight-line basis
- As the funds are expensed
- At the end of the period

Objective is to provide better information to users

- More relevant and faithfully representative portray of financial performance and position
Geographical Location of Respondents – Other Obligations

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OPTION (C) 'OTHER OBLIGATIONS' – 6 RESPONDENTS

- Europe: 67%
- Australasia and Oceania: 17%
- Asia: 16%
Option (c) – Other Obligation

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Consistent with Conceptual Framework - is an economic phenomenon that doesn’t meet the definition of an element but included to meet the objectives of financial reporting</td>
<td>Some argue that time requirements are deferrals and not economic phenomenon and therefore should not be treated differently from other revenue</td>
</tr>
<tr>
<td>Addresses constituent concerns about the mismatch between revenue recognition and when resources are consumed</td>
<td>Could lead to other deferrals being on the balance sheets even though they do not meet the definition of a liability</td>
</tr>
<tr>
<td>Users can see information about flows relating to future periods</td>
<td></td>
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#### Time requirements – ‘Other Obligations’

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<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>–</td>
<td>Recognized to match grant used</td>
<td>Recognized to match grant used</td>
<td>Recognized to match grant used</td>
</tr>
<tr>
<td>Expense</td>
<td>Recognized as incurred</td>
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<td>Debit on receipt</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other Obligations</td>
<td>Credit on receipt</td>
<td>Reduced as revenue is recognized</td>
<td>Reduced as revenue is recognized</td>
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Geographical Location of Respondents – Net Assets/Equity and Recycle

OPTION (D) NET ASSETS/EQUITY AND RECYCLE – 10 RESPONDENTS

- Africa and Middle East: 30%
- Asia: 10%
- Australasia and Oceania: 20%
- Europe: 30%
- International: 10%
Time requirements – Net Assets/Equity

Option (d) – Net Assets/Equity and recycle

<table>
<thead>
<tr>
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<tr>
<td>Some consider this best represents the economic reality in terms of cash flows</td>
<td>Some consider this could misrepresent the recipient’s financial performance – e.g. it would show that the recipient is not better off from a performance perspective even though there has been an increase in net assets</td>
</tr>
<tr>
<td>Consistent with the Conceptual Framework as the Framework does not require certain elements to be linked to particular financial statements</td>
<td>Deferring resources in net assets/equity may be difficult to understand as it is a change from current practice</td>
</tr>
<tr>
<td>The use of net assets/equity is already in use in other IPSAS</td>
<td></td>
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## Time requirements – Net Assets/Equity

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<td>Cash/Bank</td>
<td>Debit on receipt</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Restricted Reserves (in Net Assets/Equity)</td>
<td>Credit on receipt</td>
<td>Reduced as revenue is recognized</td>
<td>Reduced as revenue is recognized</td>
<td>Reduced as revenue is recognized</td>
</tr>
</tbody>
</table>
Include in a [draft] ED on Revenue:

- Option (c) – ‘Other Obligations’; and/or
- Option (d) – Net assets/equity and recycle

Allows revenue to be recognized over period intended to be used

Both consistent with the Conceptual Framework

May provide better information for users
Which option(s) does the IPSAS consider should be included in a [draft] ED on Revenue:

(a) – Enhanced display/disclosure
(c) – ‘Other obligations’
(d) - Net assets/equity and recycle?