

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

Joanna Spencer

Manager, Standards Development and Technical  
Projects

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## 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

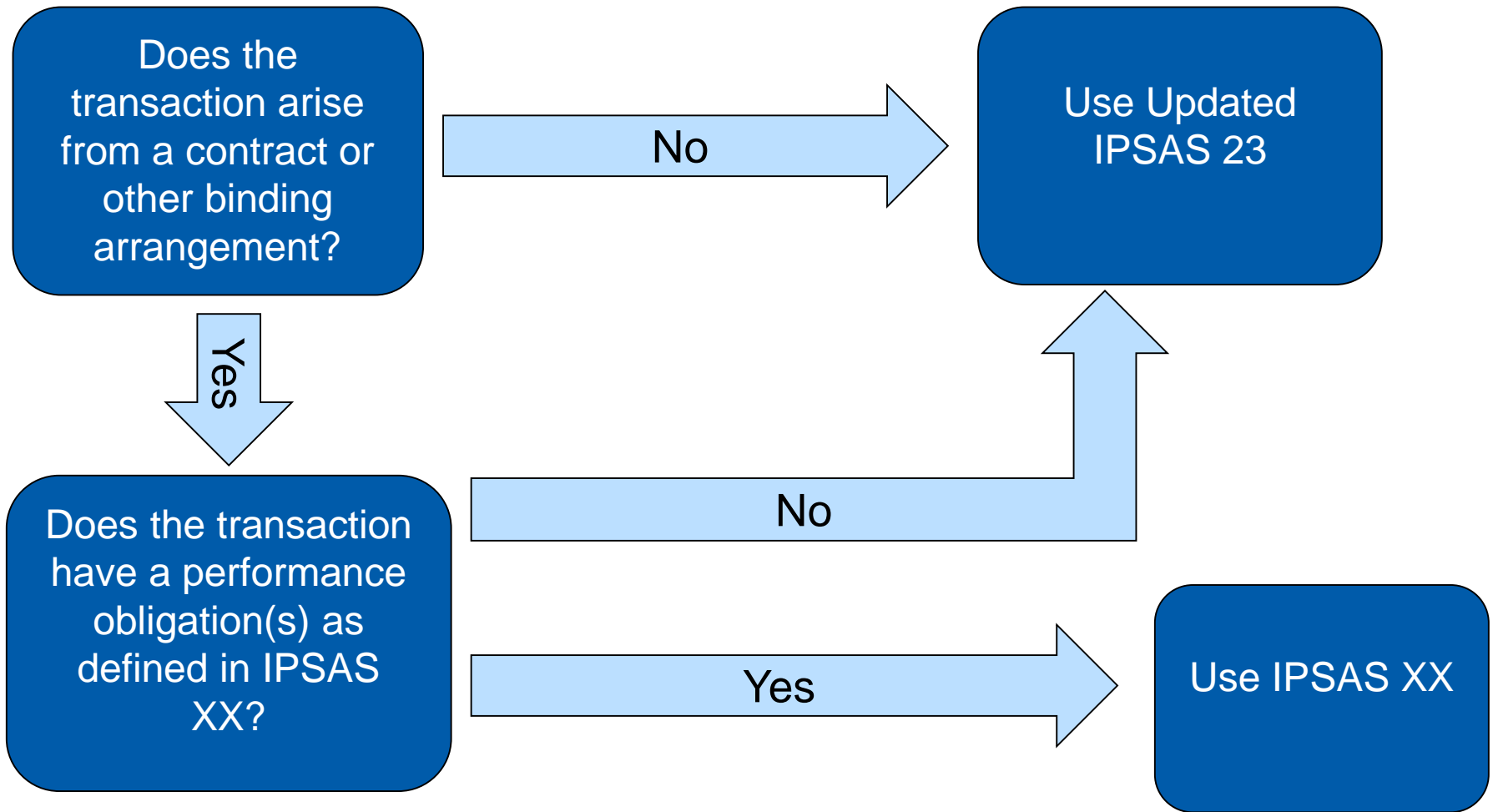
## Time requirements – the issues

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?



## 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

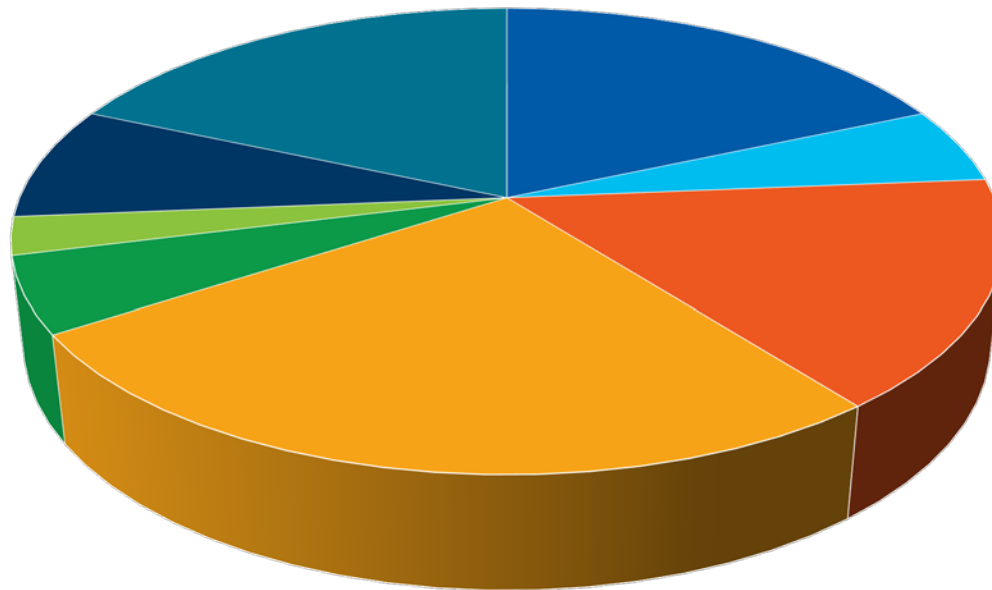
If no transfer – there is no asset for Non-exchange expenses PSPOA not feasible unless time requirements classified as an ‘other obligation’ therefore ‘other resource’ for expense side

## Time requirements – Options in CP

The CP provided four approach 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

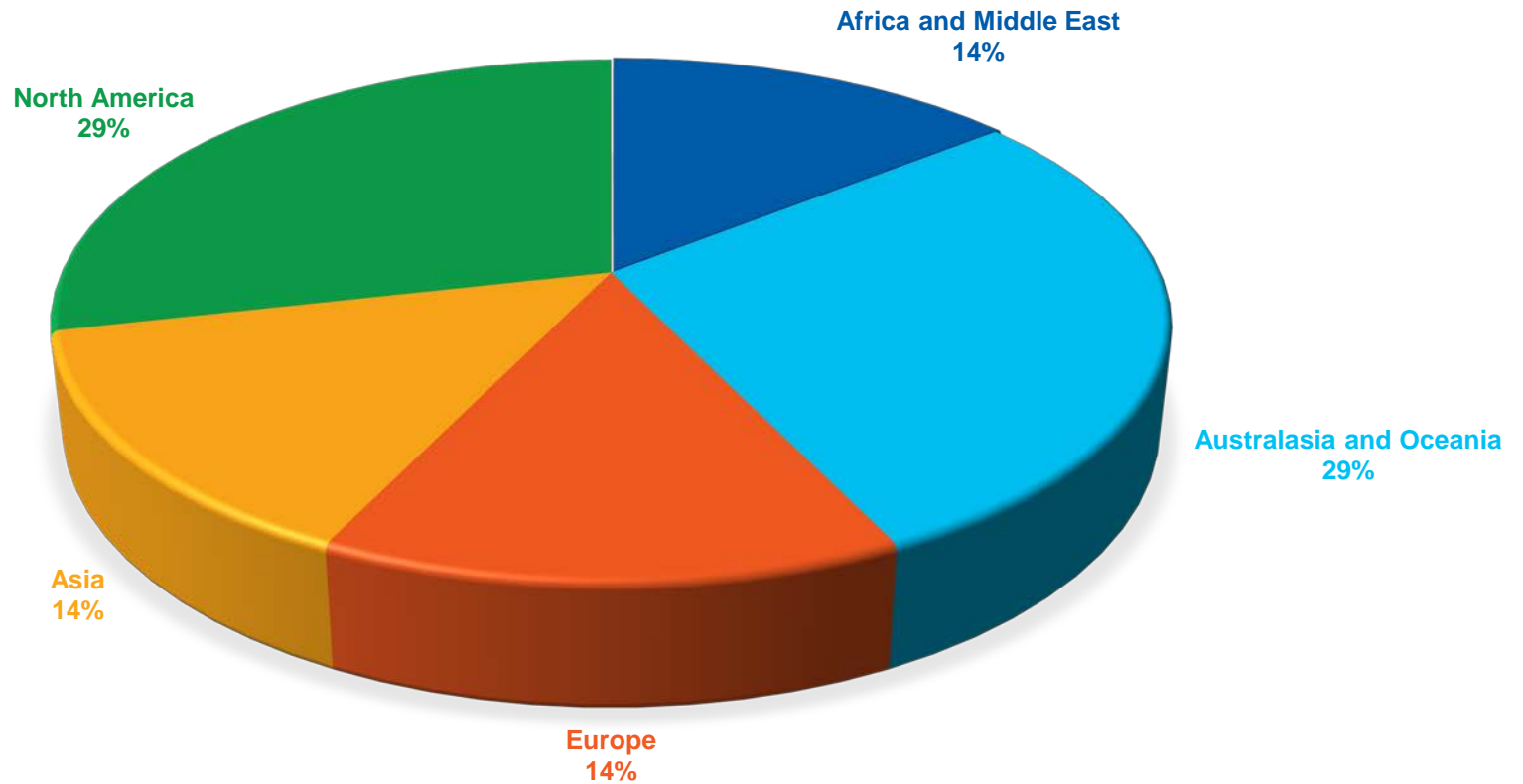


- Require enhanced display/disclosure - 7
- Classify as a condition - 2
- Classify as an other obligation - 6
- Recognize in net assets/equity and recycle - 10
- Alternative option - 2
- None of the options - 1
- Response not clear - 3
- No comment - 7



# Geographical Location of Respondents – Display/Disclosure

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



## Time requirements – Display/Disclosure

### Option (a) – Enhanced Display and/or Disclosure

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

# Time requirements – Display/Disclosure

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

## 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:

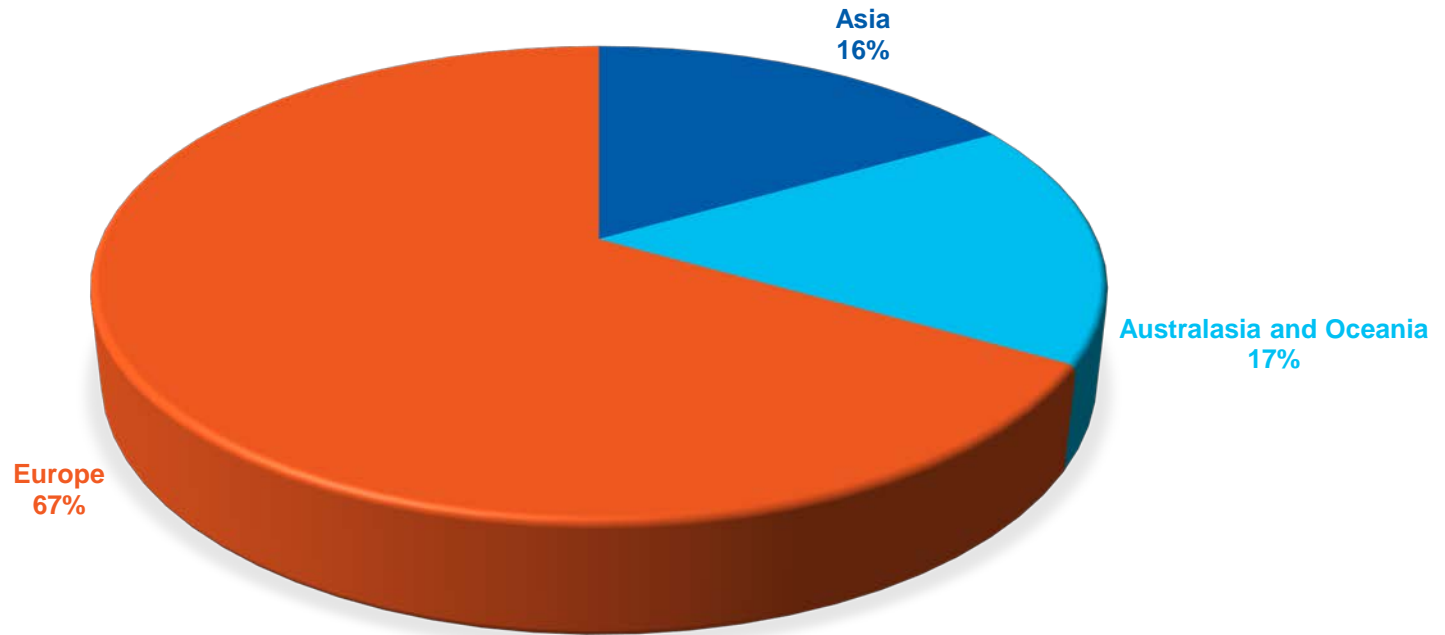
- At the beginning of the period
- On a straight-line basis
- As the funds are expensed
- At the end of the period

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

## OPTION (C) 'OTHER OBLIGATIONS' – 6 RESPONDENTS



# Time requirements – ‘Other Obligations’

## Option (c) – Other Obligation

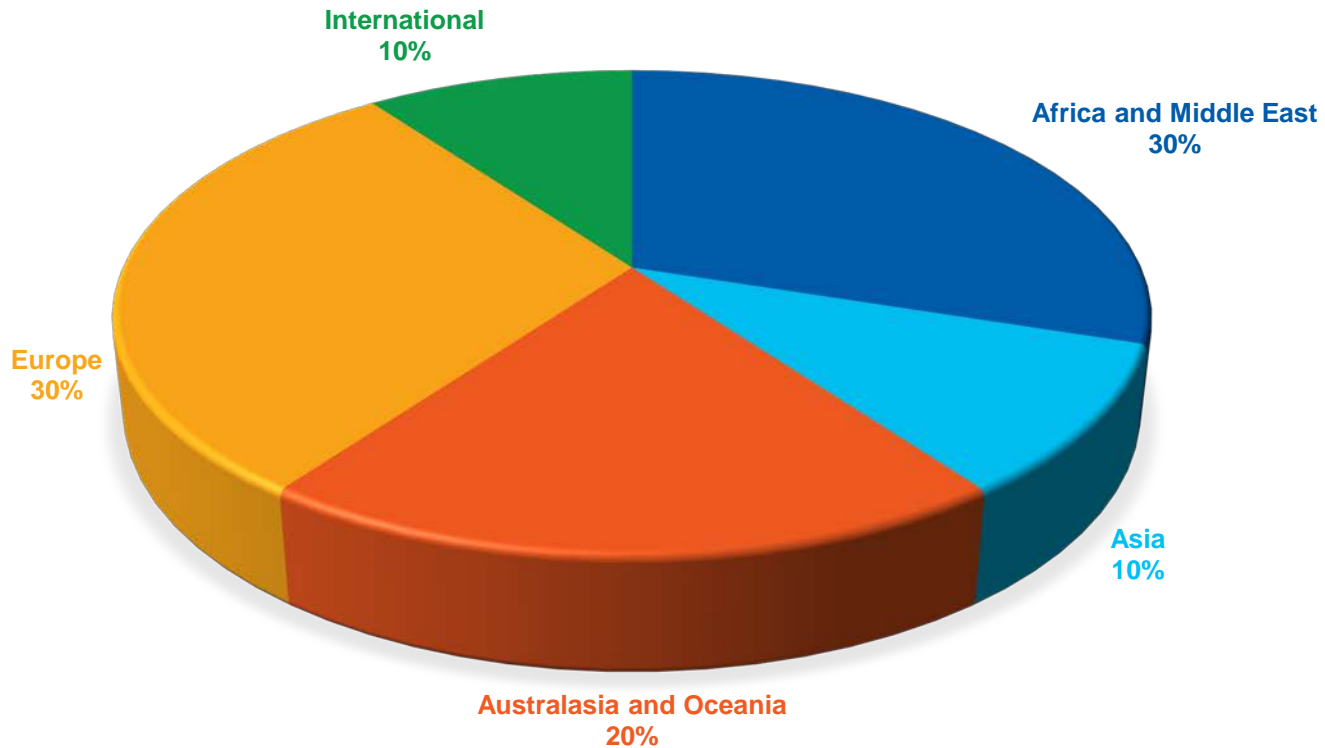
Advantages	Disadvantages
<p>Consistent with Conceptual Framework - is an economic phenomenon that doesn't meet the definition of an element but included to meet the objectives of financial reporting</p>	<p>Some argue that time requirements are deferrals and not economic phenomenon and therefore should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

# Time requirements – ‘Other Obligations’

	Year 1	Year 2	Year 3	Year 4
<b>Statement of Financial Performance</b>				
<b>Revenue</b>	–	Recognized to match grant used	Recognized to match grant used	Recognized to match grant used
<b>Expense</b>		Recognized as incurred	Recognized as incurred	Recognized as incurred
<b>Statement of Financial Position</b>				
<b>Cash/Bank</b>	Debit on receipt	–	–	–
<b>Other Obligations</b>	Credit on receipt	Reduced as revenue is recognized	Reduced as revenue is recognized	Reduced as revenue is recognized

# Geographical Location of Respondents – Net Assets/Equity and Recycle

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





## Time requirements – Net Assets/Equity

### Option (d) – Net Assets/Equity and recycle

<b>Advantages</b>	<b>Disadvantages</b>
Some consider this best represents the economic reality in terms of cash flows	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
Consistent with the Conceptual Framework as the Framework does not require certain elements to be linked to particular financial statements	Deferring resources in net assets/equity may be difficult to understand as it is a change from current practice
The use of net assets/equity is already in use in other IPSAS	

# Time requirements – Net Assets/Equity

	Year 1	Year 2	Year 3	Year 4
<b>Statement of Financial Performance</b>				
<b>Revenue</b>	–	Recognized to match grant used	Recognized to match grant used	Recognized to match grant used
<b>Expense</b>		Recognized as incurred	Recognized as incurred	Recognized as incurred
<b>Statement of Financial Position</b>				
<b>Cash/Bank</b>	Debit on receipt	–	–	–
<b>Restricted Reserves (in Net Assets/Equity)</b>	Credit on receipt	Reduced as revenue is recognized	Reduced as revenue is recognized	Reduced as revenue is recognized

## Staff recommendations

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

## Time requirements — Question for IPSASB

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?



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