

Agenda Item 9: Revenue

Amon Dhiwayo & Joanna Spencer

Managers, Standards Development and Technical
Projects

Paul Mason, Principal

IPSASB Meeting

September 18 – 21, 2018

Toronto, Canada

Session Outline

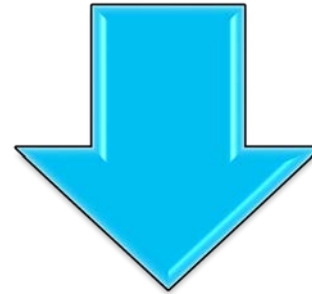
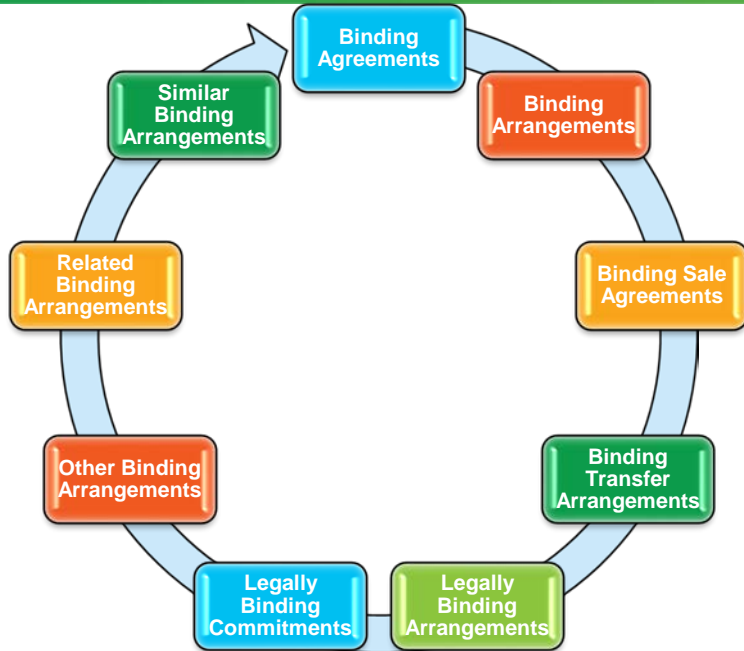
Modifications to IFRS 15 (Agenda Item 9.2.1)

Draft Amendments to Other IPSAS (Agenda Item 9.2.2)

Services in-kind (Agenda Item 9.2.3)

Other Compulsory Contributions and Levies (Agenda Item 9.2.4)

Binding Arrangements – IFRS 15 Convergence (Agenda Item 9.2.1)



Staff recommends
Binding Arrangements or
Other Binding Arrangements



- Located in Conceptual Framework
- Located in Numerous Standards (IPSAS 32, 35, 36 etc.)
- Located in current Revenue standards IPSAS 11 and 23
- Latter Standards IPSAS 40 and 41



Binding Arrangements – IFRS 15 Convergence (Agenda Item 9.2.1) – Decision

1. Does the IPSASB agree with the use of “Binding Arrangements”, or “Other Binding Arrangements”?

Binding Arrangements – PSPOA (Agenda Item 9.2.1)

- Guidance on ‘Binding Arrangement’
- Located following paragraph 10 of [draft] ED.

In some jurisdictions, governments and public sector entities may not enter into legal obligations in their own name, therefore they are not able to enter into contracts which by their very nature are enforceable by law. However, these entities may be able to enter into other agreements which create a *binding arrangement*. A binding arrangement by definition confers enforceable rights and obligations on the parties to it as if it was in the form of a contract and can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties to the arrangement. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between parties.

Binding Arrangements – PSPOA (Agenda Item 9.2.1) – Decisions

1. Does the IPSASB agree with wording for the guidance on ‘binding arrangement’?
2. Does the IPSASB agree with the placement of the guidance on ‘binding arrangement’?

Contract Asset and Contract Liability – IFRS 15 Convergence (Agenda Item 9.2.1)

Option 1

Continue to use the terms, “Contract Asset” and “Contract Liability”

Option 2

Continue to use the terms, “Contract Asset” and “Contract Liability” and **Highlight that they may arise from Binding Arrangement**

Option 3

Replace the terms, “Contract Asset” and “Contract Liability” with **Binding Arrangement Asset and Binding Arrangement Liability**

Option 4

Concurrent use of the terms, “Contract Asset” and “Contract Liability” with **Binding Arrangement Asset and Binding Arrangement Liability**

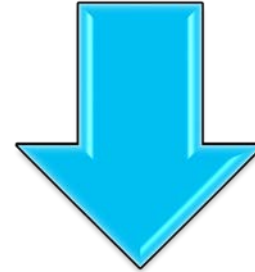
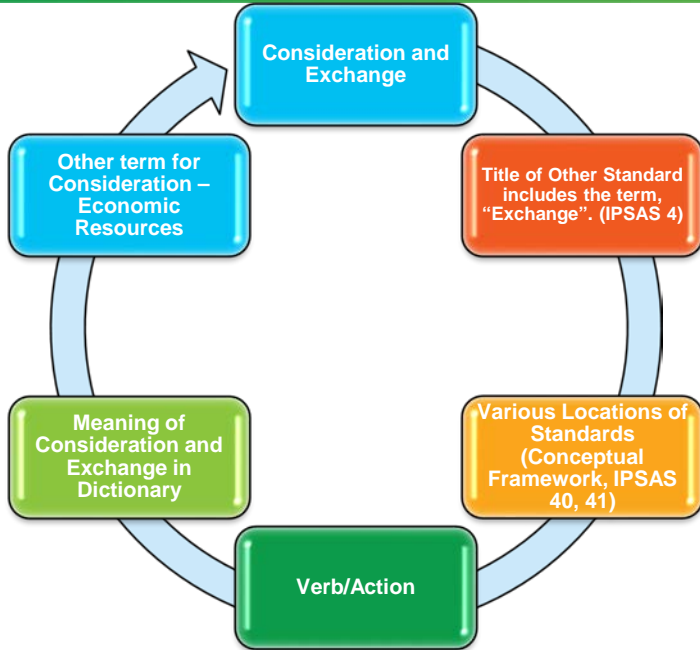
Staff
Recommend
Option 4

Staff also
consider
Option 2

Contract Asset and Contract Liability – IFRS 15 Convergence (Agenda Item 9.2.1) – Decision

1. Does the IPSASB agree with the use of “Contract Asset and Contract Liability **concurrently** with Binding Arrangement Asset and Binding Arrangement Liability”?

Consideration and Exchange – IFRS 15 convergence (Agenda Item 9.2.1)



Staff propose to **retain** the term **Consideration and Exchange**



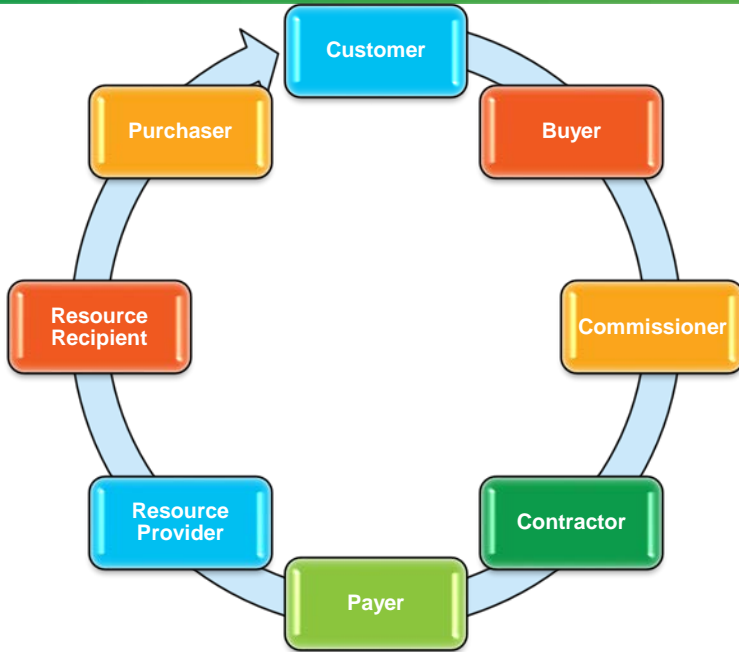
What other terms may be **Appropriate?**



Consideration and Exchange – IFRS 15 Convergence (Agenda Item 9.2.1) – Decision

1. Does the IPSASB agree with **retaining** the term “Consideration” and “Exchange”?

Customer – IFRS 15 Convergence (Agenda Item 9.2.1)



Staff recommend **Customer** and also **consider Purchaser** (Broad)



Located in **Numerous Standards**.
(IPSAS 2, 40, 41 etc.)

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

Commissioner is an **appointed Government official**.

Payer, Resource Provider and Resource Recipient," **are more appropriate for non-exchange transactions**



Customer – IFRS 15 Convergence (Agenda Item 9.2.1) – Decision

1. Does the IPSASB agree with the use of “Customer”?

Customer – PSPOA (Agenda Item 9.2.1)

- Guidance on ‘Customer’
- Located following paragraph 9 (Definitions) of [draft] ED.

The customer is the party that pays consideration for the goods and services and is not necessarily the party that receives the goods and services. The delivery of public services often involves three parties. In these three-party (tripartite) arrangements, the customer has a binding arrangement with and pays consideration to the entity to deliver public services to a third-party beneficiary. The customer can also enforce delivery of those goods and services. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over 55, the central government is the customer and the citizens are the beneficiaries of the service.

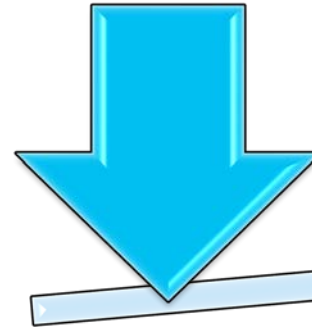
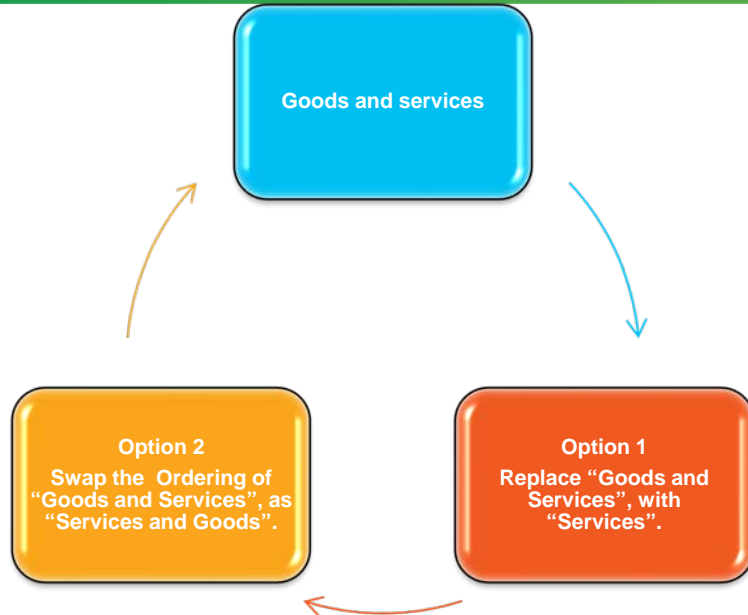
Customer – PSPOA (Agenda Item 9.2.1) – Decisions

1. Does the IPSASB agree with wording for the guidance on ‘customer’?
2. Does the IPSASB agree with the placement of the guidance on ‘customer’?

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

Goods and Services – IFRS 15 Convergence

(Agenda Item 9.2.1)



Staff recommends retaining **Goods** and **Services**
Staff does not recommend **Swapping**

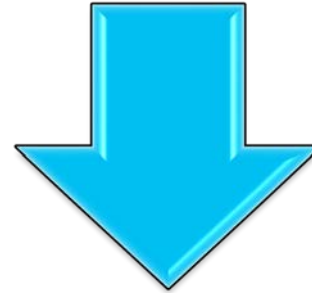
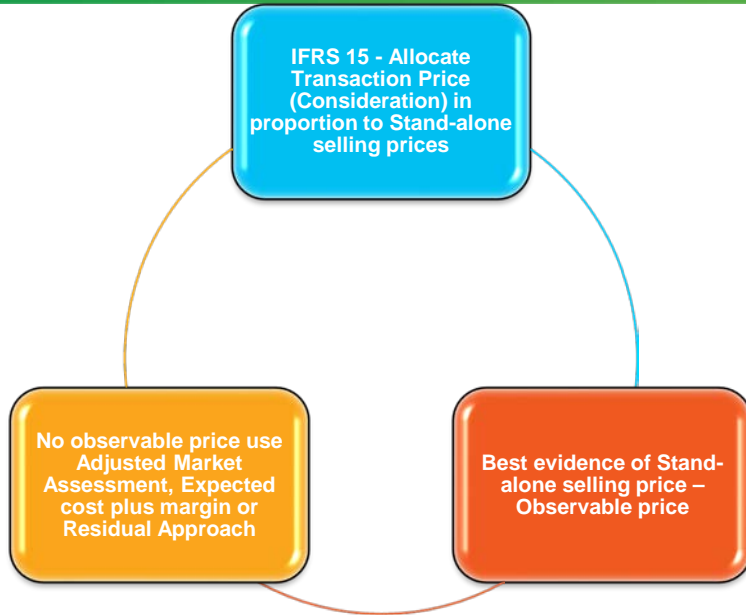
- a) **Different recognition points** Goods - Point in Time and Services - Over Time.
- b) **Previous literature** on Revenue, IPSAS 9 and IPSAS 11, also use the term, "goods and services". Widespread location (CF, IPSAS 40 and 41).
- c) **Public sector entities also produce goods** for sale (drinking water) and purchase goods for resale (sale of bins, books, maps and passports).
- d) Conceptual Framework (BC5.7 – 5.8). Opinion that **Economic benefits** includes **Service potential or vice versa**. IPSASB concluded that **a resource include both terms** "as the primary objective is to **deliver services**, but also some entities may carry out activities to generate **profits**."



Goods and Services – IFRS 15 Convergence (Agenda Item 9.2.1) – Decision

1. Does the IPSASB agree with retaining, “Goods and Services”?

Stand-alone selling price – IFRS 15 Convergence (Agenda Item 9.2.1)



Staff considers that **the methods of determining the stand alone selling price are appropriate for the Category C arrangements that would be covered in a converged IFRS 15 Standard.**



Stand-alone selling price – IFRS 15 Convergence (Agenda Item 9.2.1) – Decision

1. Does the IPSASB agree with the appropriateness of the methods of determining the stand alone selling price”?

Economic Substance – PSPOA (Agenda Item 9.2.1)

- Replace ‘commercial substance’ with ‘economic substance’
- Footnote describing ‘economic substance’
- Guidance on ‘economic substance’
- Located following paragraph 10 of [draft] ED.

Footnote:

Economic substance which includes commercial substance relates to the risk, timing or amount of an entity’s cash flows or service potential that is expected to change as a result of the contract or other binding arrangement.

Guidance:

An entity shall determine whether a transaction has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if:

- (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
- (b) The entity-specific value of the portion of the entity’s operations affected by the transaction changes as a result of the exchange; and
- (c) The differences in (a) and (b) is significant relative to the fair value of the assets exchanged.

For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity’s operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

Economic Substance – PSPOA (Agenda Item 9.2.1) – Decisions

1. Does the IPSASB agree with the manner in which staff have addressed ‘economic’ and ‘commercial substance’?
2. Does the IPSASB agree with the placement of the guidance on ‘economic substance’?

Enforceability – PSPOA (Agenda Item 9.2.1)

- Guidance on enforceability
- Located following paragraph 10 of [draft] ED.

Focus is on enforceability from binding arrangements

Three categories of enforcement mechanisms:

- Legal enforceability
- Enforceability by equivalent means
- Enforceability by additional mechanisms

Possible enforcement mechanisms

- Legislation or Executive Authority
- Cabinet and Ministerial Directives
- Sovereign Rights
- Ability to reduce future funding (?)
- Economic Coercion or Political Necessity (?)

Enforceability – PSPOA (Agenda Item 9.2.1) – Decisions

1. Does the IPSASB agree with analysis that the following enforcement mechanisms should be included in the [draft] ED:
 - i. Legislation or Executive Authority;
 - ii. Cabinet and Ministerial Directives;
 - iii. Sovereign Rights; and
 - iv. Ability to reduce future funding (in certain circumstances)?
2. Does the IPSASB agree with the staff conclusion that economic coercion or political necessity are not valid enforcement mechanisms?
3. Does the IPSASB agree with the wording of the guidance on enforceability?
4. Does the IPSASB placement of the guidance on enforceability?

Distinct Goods and Services – PSPOA (Agenda Item 9.2.1)

Performance obligation requires transfer of ‘distinct’ good and services

AASB 15, *Revenue from Contracts with Customers*, Paragraph F20 – Requires ‘sufficiently specific’ promise

IFRS 15 provides detail on:

- Promises in a contract
- Distinct goods and services
- Implied promises

Minimal guidance suggested – Following paragraph 28 of [draft] ED:

- “When determining if goods and services are distinct an entity should also give consideration to identifying the nature, cost, value or volume of those goods and services.”

Distinct Goods and Services – PSPOA (Agenda Item 9.2.1) – Decisions

1. Does the IPSASB agree with the wording of the guidance for ‘distinct goods and services’?
2. Does the IPSASB agree with the placement of the guidance on ‘distinct goods and services’?

Amendments to Other IPSAS – Consequential Amendments related to IFRS 15 (Agenda Item 9.2.2)

| Proposed Amendment | Rationale |
|---|---|
| Replace the reference to IPSAS 9 and IPSAS 11 in various IPSAS with a reference to [draft] ED [XX]. | IPSAS 9 and IPSAS 11 will be superseded by the new Standard, therefore references to these Standards need to be replaced with references to the new Standards. |
| Update IPSAS 1 to refer to revenue as the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. | In discussing the circumstances in which revenue and expense may be offset, IPSAS 1 relies on the definition of revenue in IPSAS 9. As that Standard will be superseded, IPSAS 1 will need to reflect the definition of revenue in the proposed new Standard. |
| Replace the term “Proceeds” with “Amount of Consideration | IPSAS 1, IPSAS 16 and IPSAS 17 refer to proceeds of sales. Revenue from such transactions is covered by the proposed new Standard, and the use of “amount of consideration” will ensure consistency with that Standard. |
| Staff recommends the removal of the term “Ordinary”. | Staff note that IPSAS 1, IPSAS 17 and IPSAS 31 maintain the use of ‘ordinary activities’ to identify when assets should be accounted for as inventory. Staff is seeking Board views on this issue. |

Amendments to Other IPSAS – Consequential Amendments related to IFRS 15 (Agenda Item 9.2.2)

| Proposed Amendment | Rationale |
|--|---|
| Replace the term “Revenue from exchange transactions” with “Revenue from transactions with performance obligations”. | IPSAS 1 currently requires revenue from exchange transactions to be presented separately from other revenue. If the IPSASB agrees to develop a single standard dealing with revenue from transactions with performance obligations, entities will no longer need to separately identify revenue from exchange transactions. Updating the presentation requirements in IPSAS 1 to match the classification of revenue transactions will avoid placing additional burdens on preparers. Other IPSAS will require similar amendments to maintain consistency with the proposed new Standard. |
| Remove the references to inventories including the costs of the service for which the entity has not yet recognized the related revenue in IPSAS 12. | IPSAS 12 currently treats the costs of services for which an entity has not yet recognized the related revenue as inventory. Under the proposed new Standard, such amounts will form part of the contract asset/binding arrangement asset. The references in IPSAS 12 therefore need to be removed and preparers directed to the requirements in the proposed new Standard. |

Amendments to Other IPSAS – Consequential Amendments related to IFRS 15 (Agenda Item 9.2.2)

| Proposed Amendment | Rationale |
|--|--|
| Update IPSAS 16, IPSAS 17 and IPSAS 31 to reflect that the date of disposal is the date that recipient obtains control. | IPSAS 16, IPSAS 17 and IPSAS 31 currently refer to the guidance in IPSAS 9 in determining the date of disposal of an asset. As IPSAS 9 will be superseded, these Standards will need to reflect the revised guidance in the proposed new Standard. |
| Update IPSAS 16, IPSAS 17 and IPSAS 31 to refer to the amount of consideration on derecognition is determined in accordance with requirements for determining the transaction price. | IPSAS 16, IPSAS 17 and IPSAS 31 currently refer to the consideration receivable on disposal as its fair value, and refer to the additional guidance in IPSAS 9. As IPSAS 9 will be superseded, these Standards will need to reflect the revised guidance in the proposed new Standard. |

Amendments to Other IPSAS – Consequential Amendments related to IFRS 15 (Agenda Item 9.2.2)

| Proposed Amendment | Rationale |
|--|--|
| <p>Update IPSAS 41 to reflect the requirements of the proposed new Standard.</p> | <p>IFRS 9 refers to the principles in IFRS 15 for some transactions (for example, the simplified requirements for trade receivables. Because there is currently no equivalent IPSAS, IPSAS 41 incorporated the principles without referring to another IPSAS. The changes proposed will ensure greater consistency.</p> <p>Because of the complexity of the interactions between the two standards, staff propose liaising with the Financial Instruments Task Force in finalizing the amendments.</p> |

Amendments to Other IPSAS – Consequential Amendments related to IFRS 15 (Agenda Item 9.2.2)

1. Does the IPSASB supports the staff proposals in respect of the Amendments to Other IPSAS; and if not, to indicate what changes are required?

Services in-kind (Agenda Item 9.2.3)

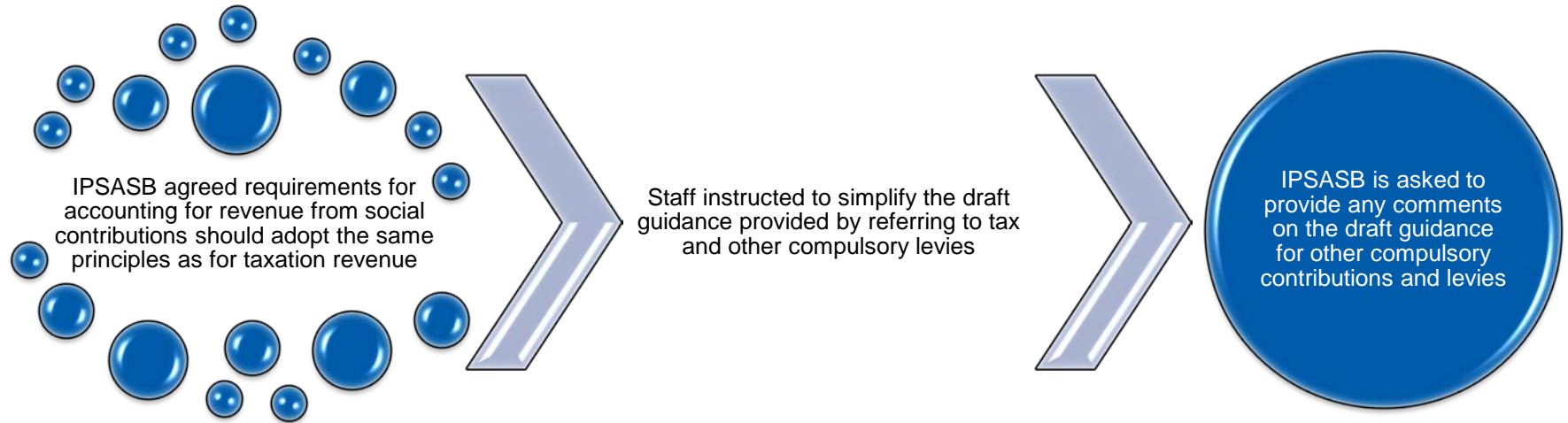
No clear steer from responses to CP, *Accounting for Revenue and Non-Exchange Expenses*

June 2018 meeting – Board decided not to change existing requirement

Strengthen the encouragement for entities to either recognize and/or disclose receipt of volunteer services

Does the IPSASB agree with the changes proposed by staff to the IPSAS 23 text for services in-kind?

Other Compulsory Contributions and Levies (Agenda Item 9.2.4)





www.ipsasb.org