Agenda Item 5: Capital Grants

Edwin Ng, Principal

IPSASB Consultative Advisory Group Meeting
Toronto, Canada
June 17, 2019
**Project update: Revenue projects context: Categorization of transactions**

**Current classification**

<table>
<thead>
<tr>
<th></th>
<th>Non-Exchange</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>No performance obligations or stipulations</td>
<td>Enforceable agreements, with performance obligations or stipulations to use or consume resources in a particular way; and/or other agreements requiring resources to be used over a specified period of time</td>
</tr>
<tr>
<td>Category B*</td>
<td>Taxes, transfers</td>
<td>Funding to deliver a specified number of vaccinations to the public</td>
</tr>
<tr>
<td>Category C</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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* Whether Category B transactions are considered to be exchange or non-exchange can differ depending on how the characteristics of the transaction are interpreted.
Project update: 
Revenue projects: Way forward

- **Board decisions:**
  - Replace IPSASs 9 & 11 with IFRS 15-based standard (ED 70)
  - Retain IPSAS 23 – update to address specific application issues (ED 71)
  - Services in kind – maintain current approach
  - Develop Public Sector Performance Obligation Approach (PSPOA) for Category B
  - PSPOA guidance in IFRS 15-based standard

- **PSPOA ‘filter mechanism:***
  - Step 1: Binding arrangement?
  - Step 2: Performance obligation? Sufficiently specific?
  - Enforceability key: Revenue of recipient when no enforcement mechanism

- **Areas for further discussion:**
  - Capital grants
  - ‘Grants, contributions and other transfers’ – guidance / examples location(s)
Project update: IFRS 15-based IPSAS: ‘Revenue with Performance Obligations’?

- IFRS 15-aligned core text
- Definitions ‘stretched’ for PSPOA, but clear link to IFRS 15 definitions
- PSPOA Application Guidance (mainly on Steps 1 and 2)
- IFRS 15 examples reviewed for public sector
- Additional PSPOA examples
Project update:
ED 71 Revised flowchart? - March IPSASB discussion

1. Does the inflow give rise to an item that meets the definition of an asset?
   - Yes
   - No
     - No
     - Yes
       - Does the inflow satisfy the criteria for recognition as an asset?
         - Yes
         - No
           - No
           - Yes
             - Does the transaction arise from a binding arrangement?
               - No
                 - Use ED 71, Revenue without Performance Obligations
               - Yes
                 - Use ED 70, Revenue with Performance Obligations
           - Yes
             - Refer to other IPSASs

2. Does the inflow result from a contribution from owners?
   - Yes
     - Refer to other IPSASs
   - No
     - Use ED 71, Revenue without Performance Obligations

3. Are there specific performance obligations?
   - Yes
     - Use ED 70, Revenue with Performance Obligations
   - No
     - Use ED 71, Revenue without Performance Obligations
Project update:
Flowchart – which standard to use?

Does the transaction arise from a binding arrangement?  

No

Use ED 71, Revenue without Performance Obligations

Yes

Does the transaction have any performance obligations as defined in ED 70, Revenue with Performance Obligations?

No

ED 70, Revenue with Performance Obligations

Yes
Agenda Item 5: Capital Grants

Project update: Grants and Transfers: Expense

- PSPOA (including recognition of asset) to be applied to transactions meeting Steps 1 & 2:
  - ‘Reverse’ IPSAS 23 approach where outside PSPOA
  - Key areas under debate in relation to Steps 1 & 2:
    - When should a liability be recognized?
    - Asset recognition? - enforceability?
Capital Grants – background and issue


- 79% of respondents noted a need for guidance on accounting for capital grants from the recipient’s perspective

Issue

- Typical capital grant transactions do not contain performance obligations, so ED 70, *Revenue with Performance Obligations*, would not apply
Capital Grants – accounting options

- Potential accounting options are:
  1. Immediate recognition
  2. Recognition over construction period
  3. Recognition in accordance with obligations in the arrangement
Option 1 – immediate recognition

- Based on reasoning that the potential return of funds is only a contingent liability rather than a present obligation giving rise to a recognized liability
Option 2 – recognition over the construction period

- Based on reasoning that requirement to acquire or construct an asset gives rise to a present obligation, resulting in a liability

Revenue recognized evenly over construction period (in this example, 4 years)
Option 3 – recognition in accordance with obligations in the binding arrangement

- Based on reasoning that specific actions required by the grant each result in a separate obligation

Revenue recognized as distinct actions are performed:

- Year 0
- Year 1
- Year 2
- Year 3
- Year 4
Reference example 1

- Illustration of option 1:

<table>
<thead>
<tr>
<th>Statement of Financial Performance</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td>CU 10M</td>
<td></td>
<td></td>
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<tr>
<td>Statement of Financial Position (Y/E)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash*</td>
<td></td>
<td>CU 10M</td>
<td></td>
<td></td>
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<tr>
<td>Grant liability</td>
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* Subsequent cash balance will depend on how and when funds are used
**Agenda Item 5: Capital Grants**

**Reference example 2A**

- Illustration of option 2:

<table>
<thead>
<tr>
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<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
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<tr>
<td><strong>Statement of Financial Performance</strong></td>
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<td></td>
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</tr>
<tr>
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<td></td>
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<td><strong>Grant liability</strong></td>
<td>CU 7.5M</td>
<td>CU 5.0M</td>
<td>CU 2.5M</td>
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Agenda Item 5: Capital Grants

Reference example 2B

- Illustration of option 3:

<table>
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<tr>
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<th>Year 4</th>
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<tr>
<td>Revenue</td>
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<tr>
<td>Grant liability</td>
<td>CU 8.5M</td>
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<td>CU 4.0M</td>
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Reference example 3

- Illustration of option 2 plus operating grant component

<table>
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- Provision of vaccinations to be accounted for separately using ED 70 starting in year 5

* Subsequent cash balance will depend on how and when funds are used
Questions to CAG members

1. Which of the accounting options do you think better serves the public interest, and why?

2. What additional information, such as examples, do you think should be developed to better illustrate the above options?