

Meeting: International Public Sector Accounting Standards Board
Meeting Location: Toronto, Canada
Meeting Date: June 23–26, 2015

**Agenda
Item
6**

For:
 Approval
 Discussion
 Information

Revenue

Objectives of Agenda Item

1. The objectives of this issues paper are to seek agreement from the IPSASB that:
 - (a) A performance obligation approach is a reasonable basis for accounting for some revenue transactions in the public sector; and
 - (b) A performance obligation approach would not work for many of the transactions currently within the scope of IPSAS 23, and a separate standard to deal with those transactions would still be required.
2. Following discussion of these ideas, the IPSASB is asked to confirm the next steps in this project.

Materials Presented

Agenda Item 6.1 Issues paper

Action Requested

3. The IPSASB is asked to provide feedback on the matters for consideration in agenda paper 6.1.

Matter(s) for Consideration

1. Does the IPSASB agree that:
 - (a) A performance obligation approach is a reasonable basis for accounting for some revenue transactions in the public sector; and
 - (b) A performance obligation approach would not work for many of the transactions currently within the scope of IPSAS 23, and a separate standard to deal with those transactions would still be required?
2. Does the IPSASB agree that further work should be done to explore how a performance obligation approach could be applied to certain revenue transactions in the public sector?
3. Does the IPSASB agree with the proposals for material to be considered at the September and December 2015 meetings?
4. The IPSASB will have an opportunity to discuss the links between this project and the non-exchange expenses project following discussion of agenda item 7.

REVENUE

Objectives of the Issues Paper

1. The objectives of this issues paper are to seek agreement from the IPSASB that:
 - (a) A performance obligation approach is a reasonable basis for accounting for some revenue transactions in the public sector; and
 - (b) A performance obligation approach would not work for many of the transactions currently within the scope of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, and a separate standard to deal with those transactions would still be required.
2. Following discussion of these ideas, the IPSASB is asked to confirm the next steps in this project.

Structure of the Issues Paper

3. This issues paper explains the process followed by staff in coming to the conclusion that a performance obligation approach is a reasonable basis for accounting for some (but not all) revenue transactions in the public sector. That process included looking at the work of other public sector standard setters, particularly their views on performance obligations. Some of these standard setters had focused on whether the performance obligation approach in IFRS 15, *Revenue from Contracts with Customers* could be used in the public sector. It also involved considering whether a performance obligation approach to certain revenue transactions would be consistent with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework).
4. The remaining sections in this issues paper are:
 - (a) Background;
 - (b) The Conceptual Framework and IFRS 15;
 - (i) Overview of the Conceptual Framework;
 - (ii) Overview of IFRS 15;
 - (iii) Consistency of IFRS 15 with the Conceptual Framework;
 - (c) Work of Other Standard Setters;
 - (i) Canada – PSAB;
 - (ii) South Africa – ASB;
 - (iii) Australia – AASB;
 - (iv) United Kingdom – FRAB;
 - (v) United States – FASB NAC and AICPA;
 - (vi) United States – GASB;
 - (d) GFSM 2014;
 - (e) Putting it Together;

- (i) Contracts with Customers;
 - (ii) Binding Arrangements,
 - (iii) Collaborative Arrangements;
 - (iv) Goods and Services Specified in Legislation and Regulations;
 - (v) Enforceability;
 - (vi) Standalone Selling Prices and Donations;
 - (vii) Funding may be Uncertain;
 - (viii) Customers;
 - (ix) Commercial Substance;
 - (x) Multiple Period Funding Agreements;
 - (xi) Collectability
 - (xii) Examples;
 - (xiii) Conclusions – Putting it Together; and
- (f) Next Steps.
5. The section headed “Putting it Together” draws on the work of other standard setters in explaining why staff consider that a performance obligation approach is a reasonable basis for some (but not all) revenue transactions in the public sector.

Background

6. At its March 2015 meeting the IPSASB approved a project brief on Revenue. The project brief proposed a single revenue project to update the IPSASB’s requirements and guidance on exchange revenue and non-exchange revenue. The project would lead to one or more new standards that would replace:
- (a) IPSAS 9, *Revenue from Exchange Transactions*;
 - (b) IPSAS 11, *Construction Contracts*; and
 - (c) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
7. The IPSASB agreed that:
- (a) The Conceptual Framework would be a key influence on the project as it defines the elements of financial reporting and contains recognition criteria.
 - (b) The IASB’s new revenue standard, IFRS 15 will be used as a significant reference point, although this is not a convergence project with IFRS 15. IFRS 15 replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts*, the standards on which IPSAS 9 and IPSAS 11 are based.
 - (c) The IPSASB’s *Process for Considering GFS Reporting Guidelines during Development of IPSASs* and the Government Finance Statistics Manual (GFSM 2014) and issues identified by constituents will also be considered.

- (d) The project will address both the initial recognition and measurement of revenue and associated receivables.
8. The project brief proposed that the IPSASB explore the issues associated with developing one or more new standards first, before coming to any conclusions on whether to issue a Consultation Paper or how many IPSASs to develop. It is expected that the IPSASB will be better placed to consider these matters by the end of 2015.
9. At its March meeting, the IPSASB also received an education session on IFRS 15. The purpose of the session was to outline the five step revenue model in IFRS 15 and to give the IPSASB an opportunity to discuss how this model could be applied to public sector revenues.
10. As noted above, this project would lead to one or more standards to replace IPSASs 9, 11 and 23. An overview of those standards and IFRS 15 is provided in Table 1 below.

Table 1 Overview of IPSASB's Revenue Standards and IFRS 15	
<i>IPSAS 9, Revenue from Exchange Transactions</i>	<p>Starting point: existence of transactions involving the rendering of services, sale of goods or use of entity assets yielding interest, royalties and dividends or similar distributions</p> <p>Risks and rewards based model – but also refers to transfer of control over goods</p> <p>Goods: Recognize revenue when risks and rewards transferred</p> <p>Services: Recognize revenue based on percentage of completion</p>
<i>IPSAS 11, Construction Contracts</i>	<p>Starting point: existence of a construction contract (may be a contractor, a recipient and a separate payer)</p> <p>Risks and rewards based model</p> <p>If outcome of contract can be reliably measured, recognize revenue based on percentage of completion</p> <p>If outcome uncertain, recognize revenue to extent that costs are recoverable</p>
<i>IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	<p>Starting point: existence of a right to an asset which may give rise to revenue</p> <p>Based on transfer of control of an asset</p> <p>Recognize the asset</p> <p>Determine whether it is a contribution from owners</p> <p>Recognize any present obligations</p> <p>Recognize revenue to the extent that an asset is recognized, and any present obligation is satisfied</p>
<i>IFRS 15, Revenue from Contracts with Customers</i>	<p>Starting point: existence of a contract with a customer</p> <p>Based on transfer of control over goods and services rendered to a customer under a contract</p> <p>Goods: Recognize revenue when control is transferred</p> <p>Services: Recognize revenue to the extent that the performance obligation under the contract is satisfied</p>

The Conceptual Framework and IFRS 15

11. This section considers whether the requirements in IFRS 15 are consistent with the IPSASB's Conceptual Framework. It begins with an overview of the Conceptual Framework and IFRS 15 and then considers how consistent IFRS 15 is with aspects of the Conceptual Framework.

Overview of the Conceptual Framework

12. Table 2 sets out an overview of the Conceptual Framework.

Table 2 Overview of Conceptual Framework	
Definitions	<p>Asset: A resource presently controlled by the entity as a result of a past event (Conceptual Framework, paragraph 5.6).</p> <p>Liability: A present obligation of the entity for an outflow of resources that results from a past event (Conceptual Framework, paragraph 5.14).</p> <p>Liabilities can be legal or non-legally binding obligations (Conceptual Framework, paragraph 5.18).</p> <p>Revenue: Increases in the net financial position of the entity, other than increases arising from ownership contributions (Conceptual Framework, paragraph 5.29).</p> <p>Expense: Decreases in the net financial position of the entity, other than decreases arising from ownership distributions (Conceptual Framework, paragraph 5.30).</p>
Description of recognition	Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in such a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports (Conceptual Framework, paragraph 6.1).
Recognition criteria	<p>The recognition criteria are that:</p> <p>(a) An item satisfies the definition of an element; and</p> <p>(b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs (Conceptual Framework, paragraph 6.2).</p>
Other resources and obligations	The Conceptual Framework leaves open the possibility that the IPSASB might require or allow items that do not meet the definition of an element to be recognized as other resources or obligations in a standard (Conceptual Framework, paragraph 5.27).
Measurement	The Conceptual Framework outlines a number of possible measurement bases for assets and liabilities, and considers their attributes. It does not specify which bases are to be used for specific assets or liabilities.

Overview of IFRS 15

13. The education session on IFRS 15 at the March meeting provided an introduction to IFRS 15, *Revenue from Contracts with Customers*. This section repeats some information from that session.
14. In May 2014, the IASB issued IFRS 15 with an effective date of 1 January 2017. At the same time, the US national standard-setter, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* (Topic 606) with

an effective date of 15 December 2016. IFRS 15 and Topic 606 include requirements that are substantially the same.¹

15. There have been some recent developments regarding IFRS 15. These are:
 - (a) Both the IASB and the FASB are proposing to extend the effective date of the new revenue standard.²
 - (b) The FASB/IASB Joint Transition Resource Group for Revenue (TRG) has been considering implementation issues. As a result both the IASB and the FASB may amend their standards, although it appears likely that the FASB will make more amendments than the IASB.³

Scope of IFRS 15

16. IFRS 15 supersedes the following standards and interpretations:
 - (a) IAS 18, *Revenue*;
 - (b) IAS 11, *Construction Contracts*;
 - (c) IFRIC 13, *Customer Loyalty Programmes*;
 - (d) IFRIC 15, *Agreements for the Construction of Real Estate*;
 - (e) IFRIC 18, *Transfers of Assets from Customers*; and
 - (f) SIC 31, *Revenue-Barter Transactions involving Advertising Services*.⁴
17. IFRS 15 is a “residual” standard. This means that it does not apply to revenue dealt with in other standards such as leases, insurance or financial instruments. However, a contract may be partly within the scope of IFRS 15, and partly within the scope of other standards. This means that some entities may need to split revenue transactions into components and account for those components according to the relevant standard. If there is guidance in the other relevant standards on how to split the contract into components, that guidance is followed. If not, then IFRS 15 contains some guidance on how to split contracts into components.
18. IFRS 15 applies to contracts with customers for goods and services in exchange for consideration. It does not apply to collaborative projects with another entity. Nor does it apply to non-monetary exchanges between entities in the same line of business to facilitate sales to customers.
19. The scope requirements in IFRS 15 mean that some entities will have to evaluate the nature of their contractual relationship with other entities in order to determine whether they have a vendor-customer relationship or some other relationship.

¹ Although the IASB and FASB developed IFRS 15 jointly, this issues paper refers mainly to the IASB.

² The IASB is proposing to extend the effective date of IFRS 15 from reporting periods beginning on or after 1 January 2017 to 1 January 2018. The FASB is proposing to extend the effective date of its equivalent revenue standard (for most entities) from annual reporting periods beginning after December 15, 2016 to December 15, 2017.

³ The IASB is considering clarifying the guidance on licences and adding examples illustrating the guidance on identifying performance obligations. The IASB also plans to discuss possible clarifications to the guidance on principal versus agent considerations.

⁴ The interpretations listed in this paragraph do not form part of IPSAS 9 or IPSAS 11 and have not been considered by the IPSASB. This is because they were issued on, or after, July 2001, which is when IPSAS 9 and IPSAS 11 were issued.

Core Principle of IFRS 15

20. The core principle of IFRS 15 is that an entity will recognize revenue for the amount of consideration due to an entity in exchange for the goods and services provided to the customer. This means that:
- (a) Revenue should be recognized to reflect the transfer of control of the asset to the customer; and
 - (b) The amount of revenue recognized should be equal to the consideration that the entity is entitled to for satisfying the performance obligation.

5 Step Revenue Model

21. The core principle in IFRS 15 is applied by means of a five-step model which is applied to all contracts with customers. Table 3 sets out the steps in applying IFRS 15.

Table 3 Steps in Applying IFRS 15	
Step 1 – Identify the contract(s) with the customer	<p>A contract is an agreement between two or more parties that creates enforceable rights and obligations.</p> <p>An entity would apply IFRS 15 to each contract with a customer that has commercial substance and meets other specified criteria. One criterion requires an entity to assess whether it is probable that the entity will collect the consideration to which it will be entitled in exchange for the promised goods or services.</p> <p>In some cases, IFRS 15 requires an entity to combine contracts and account for them as one contract. IFRS 15 also specifies how an entity would account for contract modifications.</p> <p>IFRS 15, paragraphs 9-21</p>
Step 2 – Identify the performance obligations in the contract	<p>Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct. In determining whether a good or service is distinct, an entity considers if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer. An entity also considers whether the entity's promise to transfer the good or service is separately identifiable from other promises in the contract.</p> <p>IFRS 15, paragraphs 22-30</p>

Table 3 Steps in Applying IFRS 15	
Step 3 – Determine the transaction price	<p>The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.</p> <p>Usually, the transaction price is a fixed amount of customer consideration. Sometimes, the transaction price includes estimates of consideration that is variable or consideration in a form other than cash. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Adjustments to the transaction price are also made for the effects of financing (if significant to the contract) and for any consideration payable to the customer.</p> <p>IFRS 15, paragraphs 46-72</p>
Step 4 – Allocate the transaction price	<p>An entity would typically allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service. If a stand-alone selling price is not observable, the entity would estimate it.</p> <p>Sometimes, the transaction price may include a discount or a variable amount of consideration that relates entirely to a specific part of the contract. The requirements specify when an entity should allocate the discount or variable consideration to a specific part of the contract rather than to all performance obligations in the contract.</p> <p>IFRS 15, paragraphs 73-90</p>
Step 5 – Recognize revenue when a performance obligation is satisfied	<p>An entity would recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).</p> <p>A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.</p> <p>IFRS 15, paragraphs 31-45</p>

22. Step 5 requires a judgment about when control of an asset is transferred to the customer. Indicators of the transfer of control at a point in time include, but are not limited to, the following:
- (a) The entity has a present right to payment for the asset.
 - (b) The customer has legal title.
 - (c) The entity has transferred physical possession to the customer.⁵
 - (d) The customer has the significant risks and rewards of ownership of the asset.
 - (e) The customer has accepted the asset.
23. Step 5 of the revenue model also requires that an entity assess whether it has satisfied performance obligations. IFRS 15 (paragraph 35) outlines the criteria used to assess whether an entity has satisfied performance obligations over time and should therefore recognize revenue over time. Appropriate measures of progress include output methods (for example, units produced or results achieved), and input methods (for example, costs incurred or time elapsed).
24. Contract costs are dealt with in a separate section of the Standard and include costs of obtaining, and fulfilling a contract (paragraphs 91-104). The general rule is that contract costs are capitalized if the entity expects to recover the costs. However, the costs of obtaining a contract are expensed if the amortization period would be less than one year. Amortization and impairment rules will apply. There may be some judgment required about which costs may be capitalized.
25. Generally IFRS 15 applies to a single contract, but in some cases it may be applied to a portfolio of contracts.
26. This issues paper refers to the revenue model in IFRS 15 as a performance obligation model and refers to some other models of recognizing revenue as control models. However, the IFRS 15 revenue model is also a control model in that revenue is recognized when the customer obtains control over the goods or services that constitute the performance obligations. IFRS 15 makes the point that the services being provided are also assets, even if only temporarily.

Consistency of IFRS 15 with the Conceptual Framework

27. This section considers how consistent IFRS 15 is with the definitions and recognition criteria in the IPSASB's Conceptual Framework. The overall view is that it is broadly consistent with the IPSASB's Conceptual Framework. This is to be expected because, when developing IFRS 15, the IASB was influenced by the discussions it was having on revising the IASB's Conceptual Framework.⁶ Also, it is to be expected because the definitions of elements in the IASB's Conceptual Framework ED and the IPSASB's Conceptual Framework are very similar.

⁵ Not applicable to some repurchase arrangements and consignment agreements.

⁶ The most recent IASB views are set out in ED/2015/3 *Conceptual Framework for Financial Reporting* (May 2015).

Assets

28. The IPSASB's Conceptual Framework (paragraphs 5.6 and 5.7) defines an asset and a resource as:

Asset: A resource presently controlled by the entity as a result of a past event.

Resource: A resource is an item with service potential or the ability to generate economic benefits.

29. IFRS 15 focuses on the identification of assets associated with contracts with customers and the transfer of control of those assets. IFRS 15, paragraphs 31 and 33 which are shown below, describe Step 5 of the IFRS 15 revenue model.

IFRS 15 paragraphs 31 and 33

31 An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

33 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

- (a) Using the asset to produce goods or provide services (including public services);
- (b) Using the asset to enhance the value of other assets;
- (c) Using the asset to settle liabilities or reduce expenses;
- (d) Selling or exchanging the asset;
- (e) Pledging the asset to secure a loan; and
- (f) Holding the asset.

30. Although the IFRS 15 discussion of benefits refers to *potential cash flows*, which differs from the IPSASB's focus on *service potential and economic benefits*, the examples of benefits used in IFRS 15 include some benefits that the IPSASB would think of as service potential. For example, the IPSASB would refer to the use of an asset to produce goods or provide services as service potential.

31. IFRS 15 explains that the transfer of control, referred to in paragraph 31 of that Standard, can occur at a point in time, or over time. Effectively this is when the asset of the supplier becomes the asset of the customer.

32. Indicators of the transfer of control (at a point in time) include:

- (a) Entity has present right to payment for the asset;
- (b) Entity has physically transferred the asset;
- (c) Legal title of the asset;
- (d) Risks and rewards of ownership; and
- (e) Acceptance of the asset by the customer (IFRS 15, paragraph 38).

33. With respect to transfer of an asset over time, IFRS 15 permits the recognition of revenue only when the entity can *reasonably measure* its progress towards complete satisfaction of the performance

obligation. The requirement to be able to reasonably measure progress is more prescriptive than the recognition requirements in the IPSASB's Conceptual Framework. However, the requirement reflects the IASB's views on the application of the qualitative characteristics to a particular situation. It is not uncommon for standards to be more prescriptive than conceptual frameworks.

34. IFRS 15 is focused on the recognition of revenue due to the transfer of an asset to a customer. It needs to be considered together with other standards that govern the recognition and measurement of such assets. For example, inventory is accounted for in accordance with IAS 12, *Inventories*. However, IFRS 15 does provide some guidance on when costs to fulfil a contract, which have not been accounted for under other standards, may be recognized as assets. The criteria in IFRS 15 (paragraph 95) permit the recognition of such costs as assets when an entity expects future benefits as a result of having incurred those costs. This is consistent with the definition of an asset in the IPSASB's Conceptual Framework.
35. IFRS 15 refers to two types of assets: contract assets and receivables. It requires that contract assets and receivables be separately disclosed.

IFRS 15 Paragraph 105

105 When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

IFRS 15 Appendix A, Defined Terms

Contract assets: An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

36. If an entity has an unconditional right to payment when it has satisfied a performance obligation then it would recognize a receivable. However, if it still has to do something else before it is entitled to payment, it would recognize a contract asset. Once the entity has an unconditional right to consideration it would derecognize the contract asset and recognize the receivable. The Basis for Conclusions on IFRS 15 explains that separate disclosure of contract assets and receivables was considered to be relevant information because there are more risks associated with contract assets than receivables.
37. The IPSASB's Conceptual Framework discusses assets at a conceptual level – it does not consider the separate recognition of specific types of assets. However, the qualitative characteristics in the IPSASB's Conceptual Framework are consistent with the qualitative characteristics in the IASB's Conceptual Framework and include relevance.

Liabilities and Performance Obligations

38. One of the key aspects of the revenue model in IFRS 15 is the recognition of revenue as performance obligations are satisfied. Where money is received in advance of a performance obligation being satisfied this results in the recognition of a liability. In this subsection we compare what the IPSASB's Conceptual Framework says about performance obligations with the definition of a performance obligation in IFRS 15.

39. The IPSASB's Conceptual Framework (paragraph 5.14) defines a liability:
- Liability: A present obligation of the entity for an outflow of resources that results from a past event.
40. It also explains that liabilities can be legal obligations or non-legally binding obligations (Conceptual Framework, paragraph 5.18).
41. The IPSASB's Conceptual Framework states that the circumstances under which performance obligations give rise to liabilities should be considered at standards level. There is some discussion in the Basis for Conclusions on Chapter 5 (paragraphs BC5.26 and BC5.27). These paragraphs refer to a performance obligation as "an obligation in a contract or other binding arrangement between an entity and an external party to transfer a resource to that other party". They explain that performance obligations may be:
- (a) Explicit or implicit;
 - (b) Contractual or statutory; and
 - (c) To a specific external party or to an unspecified group;
42. The definition of a performance obligation in IFRS 15 is:
- IFRS 15 Appendix A, Defined Terms**
- Performance obligation: A promise in a contract with a customer to transfer to the customer either:
- (a) a good or service (or a bundle of goods or services) that is distinct; or
 - (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
43. The definition of performance obligations in IFRS 15 is narrower than the IPSASB's view of a performance obligation, as outlined in the Basis for Conclusions on Chapter 5 of the Conceptual Framework. This difference is partly explained by the fact that the definition of performance obligations in IFRS 15 is intended to help establish which performance obligations are within the scope of IFRS 15, and which are not. The purpose of the discussion in the IPSASB's Basis for Conclusions on Chapter 5 of the Conceptual Framework was to describe the range of performance obligations that can exist and to acknowledge that only some performance obligations will give rise to liabilities.
44. If the IPSASB were to develop a standard based on the revenue model in IFRS 15 it would need to carefully consider which performance obligations should be within the scope of the standard and what to call them. As discussed later in this paper, much of the additional guidance that the Australian Accounting Standards Board (AASB) has developed to assist not-for-profit entities applying IFRS 15 can be regarded as expanding the types of performance obligations that should be accounted for in accordance with IFRS 15. For example, AASB ED 260 proposes:
- (a) To qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied;
 - (b) To qualify as a contract with a customer, an agreement must create enforceable rights and obligations. ED 260 provides guidance on enforceable agreements;

- (c) To broaden the notion of a contract to encompass arrangements entered into under the direction of another party;
 - (d) To explain that a customer may direct that goods and services are to be provided to other parties (including the individuals or the community at large); and
 - (e) To explain that contracts can be regarded as having commercial substance if they give rise to substantive rights and obligations (that is, they do not have to give rise to a profit).
45. As noted earlier, if either party to a contract has performed, IFRS 15 requires that the entity recognize a contract asset or a contract liability.

IFRS 15 Appendix A, Defined Terms

Contract liability: An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

46. Another area where the IASB has been aware of the need for consistency between IFRS 15 and its Conceptual Framework is in relation to constructive obligations. IASB agenda papers (refer paper 10C, July 2014) noted that some standards, including IFRS 15, require the recognition of constructive obligations. The IASB agenda papers noted that it would be inconsistent for the IASB's Conceptual Framework to require that obligations be legally enforceable and strictly unconditional. IFRS 15, paragraph 25, explains that some promises may be implied by an entity's customary practices and policies.

IFRS 15 paragraph 25 – Customary Business Practices

A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer.

Revenue

47. The IPSASB's Conceptual Framework (paragraph 5.29) defines revenue:
- Revenue: Increases in the net financial position of the entity, other than increases arising from ownership contributions.
48. The definitions of elements in the IPSASB's Conceptual Framework do not distinguish between ordinary activities and activities outside the ordinary course of operations. The Conceptual Framework permits the terms 'gains' and 'losses' to be used to describe events and transactions outside the ordinary course of operations, but does not identify 'gains' and 'losses' as separate elements.
49. By contrast, both the IASB's current Conceptual Framework and its 2015 ED make a distinction between ordinary activities and activities outside the ordinary course of operations. The IASB uses the term income as an overall term and revenue as a subset of income. The definitions of income and revenue in IFRS 15 reflect this distinction.

IFRS 15 Appendix A, Defined Terms

Revenue: Income arising in the course of an entity's ordinary activities.

Income: Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.

50. Although this distinction represents a difference between the IPSASB's Conceptual Framework and IFRS 15, this difference has been successfully addressed in a number of other projects.

Expense

51. The IPSASB's Conceptual Framework (paragraph 5.30) defines expense:

Expense: Decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

52. IFRS 15 is about the recognition of revenue, not expenses. Nevertheless IFRS 15 does deal with some expenses associated with contracts with customers, and for this reason, we have included a section on expenses. Most expenses relating to contracts with customers are dealt with by other standards. For example:

- (a) Cost of goods sold – accounted for in accordance with IAS 2, *Inventories* (or, in the IPSASB's case, in accordance with IPSAS 12, *Inventories*); and
- (b) Other expenses incurred in getting inventory to saleable condition but which do not qualify to be recognised as part of the cost of the inventory – accounted for in accordance with IAS 2 / IPSAS 12.

Recognition and Measurement

53. The recognition criteria in the IPSASB's Conceptual Framework are that an item satisfies the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs (Conceptual Framework, paragraph 6.2). Unlike the requirements in some existing standards, it does not require that inflows or outflows be probable.
54. The recognition of revenue under IFRS 15 depends on whether goods and services transfer at a point in time, or over time. IFRS 15, paragraphs 35-37, provides specific requirements for determining the recognition of revenue when goods or services transfer over time. The pattern of transfer may be different for different contracts because it will depend on the relevant facts and circumstances of each contract.
55. IFRS 15 uses an allocated transaction price approach to measure performance obligations. This is step 4 of the revenue model. An entity would allocate the transaction price to each performance obligation in the contract. Typically the allocation is on the basis of the relative stand-alone selling prices of each distinct good or service. The transaction price is entity specific but the allocation using stand-alone selling prices uses information from outside the entity. The IASB considered, but rejected, an alternative measurement approach, which would have been to measure the remaining performance obligations directly at the end of each reporting period. Non-cash consideration is measured at fair value (paragraphs 66 to 69).

56. An entity applying IFRS 15 applies the selected method for measuring progress consistently for a particular performance obligation and also across contracts that have performance obligations with similar characteristics. This is intended to ensure consistency and comparability.
57. Where there is a significant financing component, IFRS 15 requires discounting of the transaction price. Chapter 7 of the IPSASB's Conceptual Framework notes that some measurement bases take the time value of money into account.
58. IFRS 15 paragraph 9 establishes a number of criteria that must be met before a contract can fall within the scope of IFRS 15. One criterion is that "it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer". This criterion acts like a collectability threshold. In evaluating whether collectability of an amount of consideration is probable, an entity considers only the customer's ability and intention to pay that amount of consideration when it is due. Although some might regard this as a recognition criterion, the IASB argued that it is part of assessing whether there is a valid contract.

Unit of Account

59. The unit of account is the group of rights, the group of obligations or the group of rights and obligations, to which recognition and measurement requirements are applied.
60. The IPSASB's Conceptual Framework does not specifically discuss the unit of account.
61. Step 2 of IFRS 15, which is about identifying the performance obligations in the contract, essentially deals with the unit of account issue. It requires that the promises under a contract be accounted for as separate performance obligations if the goods or services covered by the contract are distinct. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The IASB took the view that the customer had to obtain a benefit from the good or service in order for the information to be relevant.
62. The IFRS 15 guidance on unit of account is not inconsistent with the IPSASB's Conceptual Framework – it merely provides standards-level guidance on the unit of account.

Conclusion – Consistency of IFRS 15 with the Conceptual Framework

63. IFRS 15 is broadly consistent with the definitions of elements and recognition and measurement aspects of the IPSASB's Conceptual Framework. In fact, it is more consistent with the Conceptual Framework than IPSAS 9 and IPSAS 11, both of which are based on very early IASB standards. Those early IASB standards were developed before the IASB had a Conceptual Framework.

Work of Other Standard Setters

64. A number of standard setters with responsibility for setting standards for public sector entities have recently issued proposals regarding accounting for revenue, or have active projects on revenue topics. These projects or proposals, together with feedback from constituents in those jurisdictions, will be useful for the IPSASB's revenue project. In particular, the work of other standard setters could help the IPSASB in its deliberations on:
- (a) The extent to which the performance obligation approach in IFRS 15 can be applied to the transactions undertaken by public sector entities, including (i) the modifications that would need to be made to the IFRS 15 requirements for them to be suitable for the public sector, and (ii) whether the performance obligation approach could be applied to some transactions that currently fall within the scope of IPSAS 23;
 - (b) Identifying those revenue transactions where the IFRS 15 approach would not work; and
 - (c) The interaction between proposed revenue standards (for example, should certain transactions be split into components).
65. The first three standard setters considered in this section of the issues paper are:
- (a) The Canadian Public Sector Accounting Board (PSAB) which issued a Statement of Principles on Revenue in 2013. This work was informed by earlier discussions on IFRS 15. The PSAB's goal in developing the Statement of Principles was to establish a single framework for the reporting of revenues, although it still envisaged having separate revenue standards on various topics. It proposed the adoption of a performance obligation approach for certain revenue transactions. This project is still active.
 - (b) The South African Accounting Standard's Board (ASB) which has undertaken a research project to investigate the implications of possibly adopting the new IFRS 15 revenue recognition model, or aspects thereof, in the South African Standards of Generally Recognised Accounting Practice (GRAP). The findings are outlined in a research paper entitled *Impact of IFRS 15 Revenue from Contracts with Customers on Revenue in the Public Sector*. This research paper was issued in March 2015.
 - (c) The Australian Accounting Standards Board (AASB) which has recently issued Exposure Draft (ED) 260 *Income of Not-for-Profit Entities*. This ED, which was issued in April 2015, proposes to add guidance to the Australian equivalent of IFRS 15 to assist not-for-profit entities (including governments and many public sector entities) in applying the Australian equivalent of IFRS 15. It also proposes the creation of a new standard dealing with certain transactions that fall within the scope of IPSAS 23 such as donations and taxes.
66. The work of these three standards setters is discussed in this order because:
- (a) The PSAB's Statement of Principles was based on earlier drafts of IFRS 15 and was focused on principles rather than detailed requirements;
 - (b) The ASB's research paper was looking at issues that might arise from trying to apply IFRS 15 in the public sector, but it was not trying to identify solutions; and
 - (c) The AASB's ED 260 represents specific proposals to assist not-for-profit entities applying IFRS 15. It therefore shows how the AASB proposes to address some of the issues raised in the ASB's research paper.

67. This section of the paper also notes the work or views of other standard setters or professional bodies which might be relevant to the IPSASB's revenue project. These standard setters and professional bodies are:
- (a) United Kingdom – Financial Reporting Advisory Board (FRAB);
 - (b) United States – Financial Accounting Standards Board Not-for-Profit Advisory Committee (FASB NAC) and American Institute of Certified Public Accountants (AICPA); and
 - (c) United States – Governmental Accounting Standards Board (GASB).
68. Staff would welcome additional information from members about revenue projects or proposals in their jurisdictions.

Canada – PSAB

69. In August 2013 the Canadian Public Sector Accounting Board (PSAB) issued a Statement of Principles, "Revenue" which proposed definitions and principles applying to a broad range of revenues of public sector entities. It referred to two types of revenue:
- (a) Exchange transactions involving a sale of goods or services. These transactions give rise to performance obligations; and
 - (b) "Unilateral revenues" such as fines and penalties. The Statement of Principles referred to these as "unilateral revenues" because the payor receives no direct economic benefit in return.
70. The definitions of exchange transactions and unilateral revenues in the Statement of Principles were:
- Exchange transactions are transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor.
- Unilateral revenues increase the economic resources of a public sector entity without a direct transfer of economic resources to the payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority, or delegated constitutional authority, and an event entitling the public sector entity to recognize revenue.
71. The proposals in the Statement of Principles were limited to certain types of revenue. For example, the Statement of Principles did not propose changes to the accounting for taxes and government transfers which are dealt with by existing PSAB standards. The categories of revenue that were the focus of the Statement of Principles are illustrated in Table 4 below.

Table 4 Scope of PSAB's Statement of Principles

Category	Examples	Present or Proposed Primary Source of GAAP
Unilateral (Non-exchange)	Taxes	TAX REVENUE, Section PS 3510
	Fines, penalties	Scope of the proposals in PSAB Statement of Principles (August 2013)
	Logging and mineral rights	
	Fees that do not give rise to performance obligations	
Exchange	Sale of services Fees and user charges giving rise to performance obligations A licence to use intangible assets/intellectual property Sale of goods or property (other than financial instruments)	
	Interest, dividends, gains and losses when derecognizing financial instruments	FINANCIAL INSTRUMENTS, Section PS 3450
Inflows subject to an external restriction		RESTRICTED ASSETS AND REVENUES, Section PS 3100
Government transfers		GOVERNMENT TRANSFERS, Section PS 3410
Contributions, other than appropriations and government transfers		Under development

72. The PSAB's goal in developing the Statement of Principles was to establish a single framework for the reporting of revenues. The Statement of Principles set out the key principles that the PSAB would expect to include in a future exposure draft on this topic.
73. The main features of the proposals in the Statement of Principles were:
- (a) The presence of performance obligations for the public sector entity receiving the revenue is the distinguishing feature of an exchange transaction.⁷
 - (b) Performance obligations are enforceable promises to provide goods or services. Performance obligations could therefore be found in contracts *and* in the terms of service a public sector entity has set based on applicable regulations or legislation.
 - (c) An exchange transaction is evaluated to identify which goods or services are distinct and accounted for as a separate performance obligation.

⁷ This would mean a shift away from the IPSAS 23 concept of "approximately equal exchange" which is currently used in PSAB pronouncements (TAX REVENUE, Section PS 3510). The reason for this proposal is that many public sector entities do not compete directly with private sector entities and may not price goods and services based on market considerations, consequently it may be difficult to determine whether the price represents an exchange at equal value or involves a subsidy.

- (d) Revenue from an exchange transaction is recognized as the public sector entity satisfies a performance obligation.
 - (e) Unilateral revenues are recognized when there is the authority and a past event that gives rise to a claim of economic resources.
 - (f) When applying PSAB's general recognition criteria, revenue is not reduced when collectability (associated with credit risk) is uncertain.
74. Proposals (a) to (d) above are similar to the requirements of IFRS 15.⁸
75. The unilateral revenue referred to in proposal (e) above would be outside the scope of IFRS 15. The Statement of Principles proposes that unilateral revenues be accounted for using a control model, which is broadly similar to the approach in IPSAS 23. It is also broadly similar to the Australian proposals for taxes and fines.
76. Proposal (f) above addresses an important issue in the public sector. Accountability and transparency may mean that public sector entities should recognize the gross amount of revenue due from certain revenue transactions, even if there are doubts about whether the total amount will be collected. Collectability is discussed in more detail later in this issues paper.
77. The PSAB's proposals in the Statement of Principles were being drafted while IFRS 15 was being developed. The PSAB noted that the IASB was focusing on contractually based revenues and that the nature of the relationship between the payor and the public sector entity may be different from the customer relationships associated with profit-oriented businesses. For example, a public sector entity may be the sole provider of the service and it may have the authority to set the terms of service. The PSAB proposed to extend the scope of what is considered to be an exchange transaction to encompass any consideration associated with a performance obligation (even if the underlying agreement is not a contract). The Statement of Principles, paragraph 010, stated that "Performance obligations are found in contracts and in the terms of service a public sector entity may set, based on applicable regulations or legislation."
78. The PSAB was effectively proposing to apply an IFRS 15 performance obligation approach to a broader range of transactions than would fall within the scope of IFRS 15. The AASB is also proposing to do this, although the details of the Australian proposals are slightly different.
79. Aspects of the proposals in the PSAB's Statement of Principles that are relevant to the IPSASB's revenue project are:
- (a) To distinguish revenues from exchange transactions and revenues from a government's unilateral rights;
 - (b) To use a performance obligation approach, similar to that in IFRS 15, to the recognition of revenue from exchange transactions. Exchange transactions would be a broader category than those that fall within the scope of IFRS 15; and
 - (c) To use a control approach for the recognition of revenues that derive from the unilateral rights held by governments. The proposal was to recognize revenues from unilateral rights when

⁸ The Statement of Principles notes that "Where possible, unless specific public sector reporting issues have been identified, definitions and principles in this Statement of Principles conform to those being proposed by the IASB in its second Exposure Draft, "Revenue from Contracts with Customers," published in November 2011."

there has been a past event together with the authority to the revenue that gives the public sector entity the right to the amount.

80. Comments on the proposals in the Statement of Principles were due to PSAB in February 2014. Since then the PSAB's Revenue task force and staff have been considering key issues identified by respondents and providing updates to PSAB. The task force has endorsed the usefulness of the performance obligation concept for those public sector transactions that are exchange transactions.
81. Some public sector specific issues are likely to require further consideration. For example:
 - (a) Under the PSAB's proposals, licenses and permits (for example, motor vehicle registration and permits for the use of the electro-magnetic spectrum) would be classified as exchange transactions, because a benefit is conveyed to the payor for consideration. The question is whether the benefit is conveyed "at a point in time" or "over a period of time". There are mixed views on this issue.
 - (b) The classification of revenue from rights to resources (including oil, gas and minerals) that are beneath both government-owned and private land. There are mixed views as to whether this revenue would be classified as exchange revenue or unilateral revenue.
82. The PSAB may seek further comments from constituents on these, and other issues.

South Africa – ASB

83. The South African Accounting Standard's Board (ASB) has undertaken a research project to investigate the implications of possibly adopting the new IFRS 15 revenue recognition model, or aspects thereof, in the South African Standards of Generally Recognised Accounting Practice (GRAP). The findings are outlined in a research paper entitled *Impact of IFRS 15 Revenue from Contracts with Customers on Revenue in the Public Sector* (March 2015).⁹
84. The research paper discusses differences between IFRS 15 and GRAP and the practical implications of those differences for accounting practice in the South African public sector. The research paper also sheds light on the implications of IFRS 15 for IPSASs, because many GRAP requirements are the same as, or similar to, IPSASs.
85. The research paper identified some aspects of IFRS 15 that would increase complexity in accounting for revenue in the public sector and some aspects that could improve on current accounting practice.
86. Examples of how IFRS 15 might increase complexity in accounting for revenue were:
 - (a) IFRS 15 requires that the collectability of revenue be analysed on a contract by contract basis. This could be difficult in the public sector, due to the large number of customers of public sector entities.
 - (b) IFRS 15 contains detailed guidance on accounting for contract modifications which could increase the complexity and frequency of accounting for contract modifications. IFRS 15 does not contain less detailed requirements for less significant contract modifications.

⁹ This research paper is available at <http://www.asb.co.za/GRAP/Research-Papers>

- (c) IFRS 15 requires allocation of the transaction price of a contract to different performance obligations based on stand-alone selling prices. However, within the public sector, goods and services do not always have stand-alone selling prices due to the integrated nature of the goods and services provided.
 - (d) IFRS 15 requires that performance obligations be identified as being settled over a period of time or settled at a point in time. This split may be difficult in the public sector.
 - (e) IFRS 15 permits the recognition of receivables only when an entity has an unconditional right to receive consideration. Prior to that point the entity may have a contract asset for work done, but which is not yet a receivable. The distinction between contract assets and receivables is new.
87. Examples of how IFRS 15 might improve current practice (possibly through greater consistency) were:
- (a) IFRS 15 provides more explicit guidance on the allocation of discounts.
 - (b) IFRS 15 provides explicit guidance regarding the treatment of refund liabilities.
 - (c) IFRS 15 provides a standardised approach to contract modifications. (The possibility of greater complexity was also noted.)
 - (d) IFRS 15 provides guidance on accounting for costs incurred to fulfil contracts where those costs do not fall within the scope of another standard. Current standards do not provide such guidance.
88. The research paper also considered the feasibility of adopting a single revenue recognition model in the public sector. It noted that a single revenue model would avoid the need to make judgments about whether revenue is exchange or non-exchange revenue. It identified the following matters that would require further consideration to determine the feasibility of a single revenue recognition model in the public sector:
- (a) Contracts with customers: The IFRS 15 model, which focuses on contracts with customers, would need to be amended because the public sector has revenue flows from legislation as well as contracts. The research paper expressed the view that developing a single model that adequately caters for both exchange and non-exchange transactions would require extensive research and may be costly and time consuming.¹⁰
 - (b) Executory contracts: The majority of contracts that are within the scope of IFRS 15 are executory in nature. IFRS 15 does not consider the existence of the right to an asset that qualifies for recognition prior to any of the parties to an arrangement having performed, unless advance payments are contractually agreed between parties. The IFRS 15 revenue model would have to be amended to accommodate situations where no party to the arrangement has yet performed, and where legislation or equivalent is the driver rather than a contract.

¹⁰ As noted elsewhere in this issues paper, both the AASB and the PSAB are proposing to extend the IFRS 15 performance obligation approach to some transactions that would not fall within the scope of IFRS 15. However, they are also both proposing that certain non-exchange revenues, such as taxes and fines, be accounted for using a control approach and that the requirements be located in separate standards. Their proposals could be regarded as extending the scope of the IFRS 15 model, rather than creating a single revenue model.

- (c) Customers: IFRS 15 requires the identification of a customer. The nature of transactions in the public sector often precludes the identification of a specific customer. The goods and services rendered by public sector entities are determined by their legislative mandate to a wide range of people/entities. These goods and services are also often provided collectively rather than individually. The customers of these services and the portion of the service provided to individual customers cannot always be identified.¹¹
 - (d) Satisfaction of performance obligations: Under IFRS 15 revenue is recognized to the extent that performance obligations are satisfied. Under GRAP 23 (the South African standard based on IPSAS 23) revenue is recognized to the extent that performance obligations that also represent a return obligation (conditions) are satisfied.
 - (e) Control model: Both IFRS 15 and GRAP 23 employ control models for the recognition of revenue but the control models differ. IFRS 15 recognizes revenue to the extent that control over goods and services is transferred to a customer. GRAP 23 allows for the recognition of revenue to the extent that the reporting entity obtains control over an asset. The timing and context within which the control models of IFRS 15 and GRAP 23 are applied are therefore significantly different.
 - (f) Financing components (time value of money): IFRS 15 requires adjustment of the amount of revenue recognized from contracts with customers for significant finance components built into transactions. Current GRAP standards also require finance components to be identified.
89. The research paper concluded that application of the IFRS 15 revenue recognition model in the public sector might be feasible for revenue from exchange transactions (subject to possible amendments highlighted in the research paper and the development of application guidance) but not for revenue from non-exchange transactions.

Australia – AASB

90. The AASB issues standards for a range of entities including governments, public sector entities and private not-for-profit entities. The AASB uses the term “not-for-profit entities” to refer to both public sector and private sector not-for-profit entities. Most of the standards issued by the AASB are based on IFRSs and apply to all types of entities. In some cases the AASB includes additional material for not-for-profit entities or develops a domestic standard for not-for-profit entities.
91. When the AASB first issued AASB 15 *Revenue from Contracts with Customers* in December 2014 it was essentially the same as IFRS 15 and applied to a wide range of entities. However, not-for-profit entities are currently permitted to apply AASB 15 only in respect of what the AASB refers to as reciprocal transactions. The AASB currently has a separate standard, AASB 1004 *Contributions*, which establishes requirements for non-reciprocal transactions. This reciprocal/non-reciprocal split is similar to the IPSASB’s exchange/non-exchange split.

¹¹ The AASB has developed guidance to assist entities in deciding when transactions should be accounted for as contracts with customers. The AASB is proposing that, to qualify as a performance obligation, a not-for-profit entity’s contractual promise to transfer goods or services must be sufficiently specific to be able to determine when the obligation is satisfied.

92. The AASB has been considering revenue issues for some time. In 2009 it issued ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*¹². ED 180 was closely based on IPSAS 23. Following consideration of feedback from constituents, the AASB decided not to proceed with the proposals in ED 180. Key concerns expressed by constituents about the proposals in ED 180 were:
- (a) The definition of a 'non-exchange transaction' in ED 180 (namely, a transaction in which "an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange") was considered to be ambiguous and difficult to apply in practice; and
 - (b) The notion of a liability in ED 180 was considered to be too narrow. Consistent with IPSAS 23, ED 180 proposed that a liability arises from a non-exchange transaction only when an obligation to consume the future economic benefits embodied in the transferred assets is accompanied by an obligation to return the future economic benefits if the entity does not consume the economic benefits as specified. Numerous respondents to ED 180 argued that an entity's obligations to consume the future economic benefits embodied in the transferred assets are liabilities, regardless of whether they are accompanied by other obligations.
93. The AASB has recently issued Exposure Draft (ED) 260 *Income of Not-for-Profit Entities* (April 2015).¹³ There are two parts to ED 260:
- (a) Part A of ED 260 contains additional guidance to assist not-for-profit entities to apply the principles of AASB 15. This guidance would help not-for-profit entities decide whether particular transactions give rise to 'performance obligations' to customers (that is, promises in contracts with customers to transfer goods or services) and therefore are within the scope of AASB 15. It would also explain how AASB 15 should be applied to the specific circumstances encountered by not-for-profit entities; and
 - (b) Part B of ED 260 proposes the creation of a new standard, AASB 10XX *Income of Not-for-Profit Entities*, to replace AASB 1004 *Contributions*. This new standard would address accounting for compulsory transfers (such as taxes, rates and fines) and voluntary transfers (such as donations, grants and appropriations). The proposals address concerns that, in some circumstances, AASB 1004 resulted in the premature recognition of income.
94. ED 260 also contains examples to help entities decide whether to apply AASB 15 (the Australian equivalent of IFRS 15) or AASB 10XX (the proposed new standard for transfers), or how to split transactions into components. Under existing Australian standards, not-for-profit entities are required to assess whether transactions are reciprocal or non-reciprocal in order to decide which standard to apply. ED 260 proposes a different classification of transactions. It gives guidance about which transactions should be accounted for in accordance with AASB 15. Some of these transactions might previously have been regarded as non-reciprocal. AASB 10XX would apply to the majority of non-reciprocal transactions, but not those that fall within the scope of AASB 15 (as extended by the additional guidance in Part A of ED 260).

¹² ED 180 was issued jointly by the AASB and the New Zealand Financial Reporting Standards Board.

¹³ ED 260 is available at www.aasb.gov.au

95. The proposed additional guidance for not-for-profit entities applying AASB 15 includes:
- (a) Guidance on when an agreement with another party creates enforceable rights and obligations;
 - (b) Clarification of what the terms “customer” and “contract” mean in a not-for-profit context;
 - (c) Guidance on when a promise to transfer a good or a service is specified in sufficient detail to be able to determine when the performance obligation is satisfied; and
 - (d) Guidance on how and when to identify the donation component of a contract with customers. Identifiable donation components would be excluded from the scope of AASB 15 and accounted for in accordance with the proposed AASB 10XX.
96. All of the proposed additional guidance noted in the preceding paragraph is relevant for the IPSASB's revenue project as they are issues that the IPSASB would want to clarify. Other aspects of the AASB's work that are relevant to the IPSASB's revenue project are:
- (a) The proposal to have two standards dealing with revenue. Initially the AASB had considered dealing with both revenue from contracts with customers and transfers in a single standard. However, it subsequently decided that having two revenue models in one standard would be confusing for readers. Although the 5 step model in AASB 15 does involve an assessment of when control of an asset is transferred to a customer, the starting point for that standard is a contract with a customer. The model in IFRS 15 (and AASB 15) is referred to as a performance obligation model because the recognition of revenue is linked to the satisfaction of performance obligations. The revenue model in the proposed AASB 10XX applies to a wider range of transactions (including those based on contracts, those imposed by legislation and voluntary transactions) and is applied from the point at which an entity obtains control of an asset;
 - (b) The proposal to require not-for-profit entities to apply AASB 15 to transactions with customers when it has made a ‘sufficiently specific’ promise to transfer a good or service. Some of these transactions might previously have been regarded as non-reciprocal under Australian standards, or non-exchange using the IPSASB's definitions;
 - (c) The proposals on identifying a donation component of a transaction might be more specific than the current guidance in IPSASs on the exchange/non-exchange split; and
 - (d) The similarity of the proposals on accounting for transfers with IPSAS 23. Both the proposed AASB 10XX and IPSAS 23 provide guidance on accounting for taxes, fines and voluntary transfers (including donations or the donation component of a transaction). IPSAS 23 requires that an entity recognize a liability when a transfer has return conditions. The proposed AASB 10XX proposes an entity recognize a refund liability if the entity would be required to return transferred assets, or pay other compensation, if a specified uncertain future event outside the entity's control occurs.
 - (e) The fact that the AASB is proposing that tax receivables be initially measured at fair value, with impairments being recognized subsequent to initial recognition. The impact of collectability issues on recognition and measurement of different types of revenues will need to be addressed in the IPSASB's project.

United Kingdom – FRAB

97. The Government Financial Reporting Manual (FReM) is the technical accounting guide to the preparation of financial statements by entities consolidated within Whole of Government Accounts. The FReM is based on IFRS. It provides guidance on the application of IFRS, adapted and interpreted for the public sector. It is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities. Each year the FRAB considers new IFRSs and decides whether any additional public sector guidance or public sector adaption is required.
98. In November 2014 the FRAB considered an initial assessment of IFRS 15. That initial assessment did not propose any additional guidance or adaptations. The FRAB has not yet considered the alignment between IFRS 15 and the National Accounts.
99. IFRS 15 would not have any implications for many forms of non-exchange revenue as they would not fall within the scope of IFRS 15. The initial assessment considered by the FRAB expressed the view that, for many contracts in the public sector, the accounting for revenue would remain unchanged by IFRS 15. Long-term service contracts was one area where there might be changes, depending on how entities previously accounted for these contracts. Other areas where practice may change included:
- (a) Sales with incidental obligations (for example, equipment sales with maintenance agreements),
 - (b) Transfers of goods and services where there is no observable evidence of the stand-alone price of each of the goods and services;
 - (c) Licences of intellectual property;
 - (d) Situations where there is uncertainty about whether revenue should be recognised at a point in time or over time (for example, development of a service provided over time or a good transferred on completion);
 - (e) Estimates where consideration is variable; and
 - (f) Situations where customers pay in advance or arrears and financing of the contract needs to be considered.¹⁴
100. In addition, the assessment provided to the FRAB noted that the disclosures required by IFRS 15 are more extensive than those required by IAS 18.
101. In considering this initial assessment the FRAB made the following comments:
- (a) One of the key impacts will be the need to reassess contracts using the new model. This in itself will be time consuming;
 - (b) The need for public sector adaptations or guidance in the FReM won't be known until further work has been done;
 - (c) There may be an impact on licensing arrangements in the public sector; and
 - (d) The possible need for a group accounting policy regarding inter-entity contracts.

¹⁴ These potential areas of change were also noted in a Local Authority Accounting Panel BULLETIN 103 Closure of the 2014/15 Accounts and Related Matters <http://www.cipfa.org/policy-and-guidance/laap-bulletins>

102. Further work on the implications of IFRS 15 will be carried out by a working group of the Relevant Authorities. Public sector issues identified by the Relevant Authorities are likely to be of interest to the IPSASB. The regular updates to the FRAB on the implementation of IFRS 15 will be monitored by staff. More information on the implications across the public sector and initial consideration of any interpretations or adaptations required is expected to be available towards the end of 2015 and throughout 2016. Relevant amendments including any interpretations or adaptations are expected to be included in the 2017-18 FReM.

United States – FASB NAC and AICPA

103. Some not-for-profit entities in the United States will be required to comply with Topic 606 (the FASB equivalent of IFRS 15). Various professional bodies are looking at potential implementation issues for not-for-profit organizations. Some of these implementation issues might be similar to those that would be encountered in the public sector.
104. The FASB Not-for-Profit Advisory Committee (NAC) has discussed potential implementation issues including:
- (a) Self-pay patient revenue;
 - (b) Multiple-pay arrangements;
 - (c) Whether contributions should be explicitly excluded from the scope of the Standard;
 - (d) The lack of guidance for government grants if the governmental entity does not meet the definition of a customer; and
 - (e) Uncertainty as to how to account for collaborative arrangements, which are excluded from the scope of the Standard.
105. The American Institute of CPAs (AICPA) has also begun to examine implementation issues, and has created the Not-for-Profit Entities Revenue Recognition Task Force. The task force has identified several potential implementation issues including tuition discounts, impact of the new standard on contribution revenue (if any), government grants with deliverables, government grants – best efforts, sponsorships, membership dues, royalties, and licensing.
106. Apart from proposing different effective dates for certain types of not-of-profit entities, the FASB has not proposed any changes to the requirements of Topic 606 for not-for-profit entities. Topic 606 does not affect the existing guidance on Accounting for Contributions in Subtopic 958-605, or the methodology for determining whether something is an exchange transaction or a contribution. Topic 606 would therefore apply to “exchange transactions” entered into by the not-for-profit. This would still be a wide range of activities, such as; memberships, trade shows, publications, training or educational seminars, industry research reports, tuition for a private school, private contracts and services for a fee.
107. Some not-for-profit stakeholders in the United States have noted that contributions are not explicitly excluded from the scope of the new revenue standard and have questioned whether contributions are within the scope of the standard. The FASB staff affirmed its belief that because contributions are non-reciprocal transfers (i.e., they do not involve the transfer of goods or services to a customer), they are outside the scope of the new guidance. The FASB is not expected to amend ASC 606 to add another scope exception. Instead, it has been suggested that the AICPA could clarify this matter in its non-authoritative industry guidance.

United States – GASB

108. The GASB has not considered IFRS 15, but some of its thinking when considering the scope of revenue standards and categories of non-exchange transactions might be useful for this project. For example, Topic N50, *Nonexchange Transactions*, identifies four classes of non-exchange transactions:
- (a) Derived tax revenues;
 - (b) Imposed non-exchange revenues;
 - (c) Government-mandated non-exchange transactions; and
 - (d) Voluntary non-exchange transactions.
109. The Basis for Conclusions on GASB Topic N50 notes that when it set the classes of non-exchange transactions, GASB “concluded that certain transactions, referred to in this Statement [N50] as exchange-like transactions, are more similar to exchange transactions than to nonexchange transactions, even though many governments and others call them nonexchange transactions.”

GFSM 2014

110. The IPSASB's *Process for Considering GFS Reporting Guidelines during Development of IPSASs* states that “During the course of each IPSAS project IPSASB technical staff and the IPSASB will consider whether there is scope for the project to address differences between IPSASs and GFS reporting guidelines.” It also states that “Project staff will also consider the need to avoid introducing new differences during ... revisions to an existing IPSAS.”
111. The GFSM 2014 deals with Revenue in Chapter 5. It classifies revenue as taxes, social contributions, grants and other revenue. Social contributions, which are contributions made to social insurance schemes, are not within the scope of this project.¹⁵
112. At present there are no significant differences between the requirements in IPSAS 9, 11 and 23 and GFSM 2014.¹⁶ One area that will need to be considered more closely as this project progresses is the initial measurement of tax revenue, particularly the treatment of taxes that have been assessed but which are deemed to be uncollectible. The GFSM 2014 states that (i) it would be inappropriate to accrue revenue for an amount that the government unit does not realistically expect to collect and (ii) taxes that have been assessed and accrued but which are not expected to be collected should not be recorded as revenue. Some standard setters (for example, the AASB and PSAB) have been considering proposals that the initial measurement of tax receivables be at fair value, with impairment for non-collectability subsequent to initial recognition being recognized as an expense. This would differ from the GFSM requirements.

¹⁵ The Social Benefits project does consider social contributions, but only in the context of accounting for social insurance programs using the insurance approach.

¹⁶ Table 1 of the IPSASB's GFS tracking tables notes that the time of recording of tax revenue (item 1.B2) is currently aligned between GFS and IPSASs, although financial reporting practice in some countries differs from that used in their public accounts.

Putting it Together

113. We think that the work that has been done in developing the performance obligation approach in IFRS 15 would provide a good starting point for developing a standard for certain revenue transactions involving the delivery of goods and services in the public sector. A number of issues would need to be addressed for this approach to work well. Some of these issues are discussed below.

Contracts with Customers

114. IFRS 15 applies to revenue from contracts with customers. In order to apply IFRS 15 there must be:
- (a) A contract. The definition of a contract is “an agreement between two or more parties that creates enforceable rights and obligations”. A contract must also meet certain criteria (see below); and
 - (b) A counterparty that is a customer. A definition of a customer is “a party that has contracted with an entity to obtain goods or services that are an output of an entity’s ordinary activities in exchange for consideration”. The definition of a customer does not include arrangements whereby the parties agree to share in the risks and benefits of an activity rather than to obtain the outputs of the entity’s ordinary activities. That is, it excludes collaborative arrangements. The definition of a customer also refers to the output of an entity’s ordinary activities.
115. IFRS 15 (paragraph 9) specifies criteria that must be met before an entity can apply the revenue recognition model to that contract. These criteria were included because they indicate that the contract establishes enforceable rights and obligations (and their absence calls enforceability into question). All of the following criteria must be met for a contract to fall within the scope of IFRS 15:
- (a) The parties must have approved the contract and must be committed to perform their respective obligations;
 - (b) The entity must be able to identify each party’s respective rights regarding the goods or services to be transferred;
 - (c) The entity must be able to identify the payment terms for the goods or services to be transferred;
 - (d) The contract must have commercial substance (ie the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and
 - (e) It is probable that the entity will collect the consideration.
116. IFRS 15 does not require that contracts be written. IFRS 15 (paragraph 10) explains that contracts may be written, oral, or implied by an entity’s customary business practices. It also explains that enforceability of the rights and obligations in a contract is a matter of law.
117. IPSAS 9 does not explicitly require the existence of a contract for the recognition of revenue but it is implied throughout the standard that there is an enforceable agreement between the parties. For example, paragraph 7 states that the rendering of services typically involves the performance of an agreed task over an agreed period of time. IPSAS 9 (paragraph 22), refers to enforceable rights. Although IPSAS 9 mainly talks about “transactions”, in a few places (paragraphs 27 and 30) it infers that the transaction is based on a contract or other binding arrangement.

Binding Arrangements

118. In the public sector it is common to have agreements that might not be regarded as contracts, either because the entities concerned do not see the need for a formal contract or because they do not have the legal authority to enter into contracts.
119. If the IPSASB were to develop a revenue standard based on IFRS 15, the explicit statement that contracts can be written, oral or implied would be helpful. In addition, it is likely that the IPSASB would want to clarify that binding arrangements would fall within the scope of the standard.
120. The IPSASB would not necessarily want to use the same definition of binding arrangements in this standard as in other standards. The IASB deliberately decided not to align the definitions of a contract in IAS 32, *Financial Instruments: Presentation* and IFRS 15 because this would have posed the risk of unintended consequences in accounting for financial instruments. The IAS 32 definition of a contract implies that contracts can include agreements that are not enforceable by law.

Collaborative Arrangements

121. IFRS 15 excludes collaborative arrangements from its scope. Collaborative arrangements such as collaborative research and development or collaborative provision of services might be more common in the public sector than in the private sector.
122. If the IPSASB were to develop a revenue standard based on IFRS 15 staff considers that collaborative arrangements should remain outside the scope of the standard. To the extent that such arrangements included a contract with a customer, that portion of the contract could be dealt with under the standard.

Goods and Services Specified in Legislation and Regulations

123. Should the idea of a contract be extended to include goods and services specified in legislation or regulation and that are to be delivered by a public sector entity? If the description of the goods and services is sufficiently specific and the funding of the entity required to deliver those goods is determined with reference to those goods and services, then this extension would be possible. The funding would need to be linked to the goods and services though. If the funding were unrealistic in relation to the goods and services then it would be difficult to treat it as an agreement.

Enforceability

124. IFRS 15, paragraph 10, states that an entity shall consider the practices and processes used to establish contracts with customers (for that jurisdiction, industry or entity) in determining whether and when an agreement with a customer creates enforceable rights and obligations.
125. Some enforcement mechanisms in the public sector may be unique to the public sector, for example, Ministerial directives. Public sector entities may also use their ability to cancel funding to which an entity is presently entitled or would be entitled in the future as enforcement mechanisms. Guidance on these types of mechanisms would be useful for public sector entities, as only some of them would make an arrangement enforceable by legal or equivalent means (there is a difference between cancelling future funding to which an entity is presently entitled and that to which it would be entitled in the future).

126. The idea of enforceability is also present in some IPSASs. For example, in discussing how stipulations affect the recognition of obligations and revenue IPSAS 23, paragraph 16, states that stipulations must be enforceable. This point is reinforced in IPSAS 23, paragraph 21, which states that a condition must be enforceable.

Stand-alone Selling Prices and Donations

127. Step 4 of the revenue model in IFRS 15 states that an entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it.
128. Stand-alone selling prices may not be readily available in the public sector. The IPSASB would need to develop guidance regarding ways of estimating stand-alone selling prices in a sensible and cost-effective manner.
129. Some transactions in the public sector will combine payment for goods and services and donations without the two components being clearly specified. IPSASs acknowledge that an entity might have to split transactions into components and give some limited guidance on how to do this. Similar issues are likely to arise if IFRS 15 were to be applied in the public sector. As previously noted, the transaction price is based on the stand-alone selling prices. This means that any excess over and above the stand-alone selling price would be a donation that should be accounted for separately (using an IPSAS 23 type standard). Identifying every donation component could be very time consuming and expensive. The IPSASB would probably want to introduce some practical expedients, for example, requiring the recognition of donation components only when the entity is aware that there was intended to be a donation component.

Funding may be Uncertain

130. IFRS 15 is based around the idea of allocating the transaction price across the goods and services. When the customer in a contract is a government, there may be a fiscal funding clause in the contract stating that the contract is cancelable if the funding authority does not appropriate the funds necessary for the government to pay.
131. Judgment will need to be applied in those contracts to determine whether a contract exists when delivery of goods or services commences before funding has been formally approved. The IPSASB might consider that this issue is so prevalent in the public sector that guidance should be added to help entities making such judgments.

Customers

132. Who is the customer in a public sector setting? Is it the recipient of the goods and services or is it the entity paying for the goods and services to be delivered to recipients? What about when there is more than one party that is paying for the goods or services?
133. IFRS 15 gives a little bit of guidance on these issues but they would need to be more clearly addressed for a public sector audience. Under IFRS 15 the amounts to which the entity has rights under the present contract can be paid by any party (i.e., not only by who IFRS 15 refers to as the customer). For example, in the healthcare industry, an entity may determine the transaction price based on amounts to which it will be entitled to payment from the patient, insurance companies and/or governmental organisations.

134. The AASB has proposed to clarify that the customer is the party that promises consideration in exchange for goods or services for which it obtains all, or substantially all, of the benefits from those goods or services. The AASB's proposed implementation guidance on this issue acknowledges that the customer may direct that goods or services are to be provided to third party beneficiaries (including individuals or the community at large) on the customer's behalf.
135. The Basis for Conclusions to IFRS 15, paragraph BC54 explains that some respondents asked the boards to clarify whether the parties to some common types of contracts (for example, contracts with collaborators or partners) would meet the definition of a customer.

IFRS 15, paragraph BC54

The boards decided that it would not be feasible to develop application guidance that would apply uniformly to various industries because the nature of the relationship (ie supplier-customer versus collaboration or partnership) would depend on specific terms and conditions in those contracts. The boards observed that in many arrangements highlighted by respondents, an entity would need to consider all relevant facts and circumstances, such as the purpose of the activities undertaken by the counterparty, to determine whether the counterparty is a customer. Examples of arrangements in which an entity would need to make that assessment are as follows:

- (a) Collaborative research and development efforts between biotechnology and pharmaceutical entities or similar arrangements in the aerospace and defence, technology and healthcare industries or in higher education;
- (b) Arrangements in the oil and gas industry in which partners in an offshore oil and gas field may make payments to each other to settle any differences between their proportionate entitlements to production volumes from the field during a reporting period; and
- (c) Arrangements in the not-for-profit industry in which an entity receives grants and sponsorship for research activity and the grantor or sponsor may specify how any output from the research activity will be used.

Commercial Substance

136. IFRS 15 sets out a number of criteria that are required in order for there to be a "contract with a customer". One criterion is that the contract has commercial substance. IFRS 15 explains that contracts have commercial substance if they could lead to a change in the risk, timing or amount of the entity's future cash flows. This idea would need to be explained in a public sector context.
137. The AASB has proposed to clarify that commercial substance needs to be considered in the context in which the entity operates. For example, if an entity routinely engages in cost recovery contracts, then such contracts would have commercial substance even though they do not lead to a commercial return.

Multiple Period Funding Agreements

138. One of the issues that has led to criticism of IPSAS 23 is that it can lead to the recognition of the entire amount of revenue relating to multiple periods, in the initial period to which the agreement relates. Multi-period funding agreements can be for a range of purposes, including:
- (a) Funding for general operations;
 - (b) Funding for specified goods and services; and
 - (c) Funding for the purchase or construction of an asset.
139. Would these transactions fall within a standard based on a performance obligation approach?
- (a) Funding for general operations. No. In the absence of identifiable and enforceable performance obligations, such funding would not fall within the scope of a standard based on a performance obligation approach.
 - (b) Funding for specified goods and services: Yes. If there were identifiable and enforceable performance obligations, such funding would fall within the scope of a standard based on performance obligation approach. Revenue would be recognized as performance obligations were satisfied. That could be different from the pattern of revenue recognition under IPSAS 9 or IPSAS 23 and the nature of liabilities recognized could differ. If the transaction were currently accounted for in accordance with IPSAS 9, revenue could be recognized as specified events occur. If the transaction were currently accounted for in accordance with IPSAS 23 a liability would be recognized only if there was a condition (that is, a return condition). Under a performance obligation approach both return conditions *and other enforceable rights* (such as the ability to force the entity to deliver services) could demonstrate the existence of a performance obligation.
 - (c) Funding for the purchase or construction of an asset: This might or might not fall within the scope of a standard based on a performance obligation approach, depending on how the IPSASB set up the scope of the standard. Such funding would not normally fall within the scope of IFRS 15, but the IPSASB might want to extend the scope of an IPSAS.
140. A revenue standard based on IFRS 15 would therefore reduce the scale of the multi-period revenue issue, but it would not eliminate it. There could still be a number of multi-period revenue transactions that would not fall within the scope of such a standard.

Collectability

141. IFRS 15, paragraph 9 effectively establishes a collectability threshold. Paragraph 9 (e) specifies that “it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.”
142. In the public sector there can be a great deal of importance attached to entities properly accounting for monies owed, even if some of those amounts are subsequently written down due to collection difficulties. The nature of a public sector entity’s accountability for such amounts might lead the IPSASB to reconsider this criterion or to provide more guidance about assessing collectability. The Conceptual Framework chapters on recognition and measurement would be useful in guiding such discussions.

Examples

- 143. This section uses examples to illustrate which standard could apply to various transactions. Table 5 sets out examples, considers whether IPSAS 9 or IPSAS 23 would apply to those transactions and then considers whether there would be a performance obligation in accordance with IFRS 15.
- 144. The IPSASB might want to extend the performance obligation approach in IFRS 15 to encompass a broader range of transactions than IFRS 15. The IPSASB would need to consider how far it wanted to extend that approach and how to deal with agreements where performance obligations have not been clearly specified. The examples in Table 5 might help the IPSASB get a better sense of which transactions would clearly fall in or out of the scope of a performance obligation revenue standard and which ones might be more difficult to determine.
- 145. Under current IPSASs, determining whether a transaction is exchange or non-exchange can be highly judgmental. Classifying transactions (and getting agreement on these classifications) has been a major implementation issue for some jurisdictions that have adopted IPSASs. The definition of a non-exchange transaction refers to an entity either receiving value from another entity and directly giving approximately equal value in exchange, or giving value to another entity without directly receiving approximately equal value in exchange. The classification of transactions as exchange or non-exchange under current IPSASs can result in different accounting treatments for what are, in many respects, similar transactions.
- 146. In order to be classified as an exchange transaction, the entity receiving the funds must have an obligation to provide goods or services *directly* to the contributors of approximately equal value to the funds or contribution received. A common mistake is to conclude that a transaction to transfer resources is exchange because there are conditions attached to the arrangement.

Table 5 Examples

Transaction	IPSAS 9 or IPSAS 23?	Performance obligation?
<p>Example 1 (based on IPSAS 23 IG26-27) A large corporation that makes cleaning products gives money to a public university to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The contract stipulates that the research results are to be shared with the corporation before being announced to the public, and that the corporation has the right to apply for a patent on the compound.</p>	<p>Classified as an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. Apply IPSAS 9 and IPSAS 31, <i>Intangible Assets</i>.</p>	<p>Yes. There are enforceable performance obligations under the contract.</p>

Transaction	IPSAS 9 or IPSAS 23?	Performance obligation?
<p>Example 2</p> <p>A public sector preventative health agency receives a grant from a government department to implement a vaccination and screening program for primary school children in a particular area. The funding agreement specifies that any portion of the grant not spent on the program must be returned.</p>	<p>Likely to be classified as non-exchange revenue because the services are not provided directly to the government department.</p> <p>Apply IPSAS 23.</p>	<p>Yes.</p> <p>It is possible to identify the number of children to be vaccinated.</p> <p>Assume that it is possible to identify enforceable performance obligations under the agreement.</p> <p>Treat the government department as the customer.</p>
<p>Example 3</p> <p>A public sector entity receives funding from a government department to run a mental health program for prisoners. The program has to be run in accordance with the department's guidelines.</p>	<p>Likely to be classified as non-exchange revenue because the services are not provided directly to the government department.</p> <p>Apply IPSAS 23.</p>	<p>Depends.</p> <p>It may be possible to identify enforceable performance obligations based on the terms of the funding and the department's guidelines.</p> <p>The IPSASB might want to consider these types of situations in more detail to decide which approach is the most appropriate.</p>
<p>Example 4</p> <p>A public sector dental clinic receives CU100,000 in order to provide free dental treatment to low-income families for two years. Any portion of the funding not used must be returned. At the end of the first year, the clinic has received the full amount in cash and has expenses of CU70,000 relating to free dental treatment to low-income families.</p>	<p>Likely to be classified as non-exchange revenue because the services are not provided directly to the funder.</p> <p>Apply IPSAS 23.</p> <p>The entity recognizes revenue of CU70,000 and a liability of CU30,000 (the portion that is still subject to the return condition).</p>	<p>Depends.</p> <p>It may be difficult to identify enforceable performance obligations, because it is difficult to estimate the number and types of treatments required. Some treatments will cost more than others.</p> <p>The IPSASB might want to consider these types of situations in more detail to decide which approach is the most appropriate.</p>

Transaction	IPSAS 9 or IPSAS 23?	Performance obligation?
<p>Example 5</p> <p>A central government makes a grant of CU10 million to a local government in a socio-economically deprived area. The local government has authority under legislation to undertake various social benefit programmes. There are no specifications attached to the grant, although the central government and the community expect the grants will be used to provide social benefits.</p>	<p>Classified as non-exchange revenue.</p> <p>Apply IPSAS 23.</p>	<p>No.</p> <p>There are no specifications attached to the grant, therefore the local government does not have a performance obligation.</p>
<p>Example 6</p> <p>(based on IPSAS 23 IG28-29)</p> <p>The national government lent a local government CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.</p>	<p>Classified as a non-exchange transaction.</p> <p>There are no stipulations attached to the forgiveness of the loan.</p> <p>Recognize revenue when the liability is derecognized.</p> <p>Apply IPSAS 23 and financial instrument standards.</p>	<p>No.</p> <p>There are no performance obligations associated with the forgiveness of the loan.</p>
<p>Example 7</p> <p>(based on IPSAS 23 IG32-33)</p> <p>A 25-year old recent graduate names a public university as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.</p>	<p>Neither IPSAS 9 nor IPSAS 23 is relevant because there is no revenue.</p> <p>The public university does not recognize an asset or revenue when the will is made. The past event for a bequest is the death of the testator, which has not occurred.</p>	<p>No.</p> <p>There is no revenue.</p>

Conclusions – Putting it Together

147. The project brief for the revenue project suggested that the IPSASB defer decisions about whether the project should have a Consultation Paper phase and whether the project should lead to one or more revenue standards until the IPSASB had a chance to consider the types of issues that would need to be addressed, particularly in relation to using a performance obligation approach.
148. At this stage we have used the work of other standard setters to identify issues that the IPSASB would need to address if it were to develop a revenue standard along the lines of IFRS 15. Having done this initial work we consider that there is potential to use a performance obligation approach for some transactions, including some transactions that might currently be classified as non-exchange transactions.
149. However, there would still be a large residual group of non-exchange transactions such as taxes, fees and fines and donations that would need to be dealt with under a separate standard, similar to IPSAS 23. An IPSAS based on a performance obligation approach would provide guidance for revenue arising from transactions or “agreements” with performance obligations. This is a subset of transactions giving rise to revenue. IPSAS 23 has a much broader starting point – it considers how to account for an inflow of resources that isn’t dealt with by another standard.
150. Most public sector standard setters deal with revenue from compulsory transfers and voluntary transfers in one or more separate standards. The AASB specifically considered dealing with all residual revenues (i.e., those revenues not dealt with in other standards) in one standard, but considered that this would be confusing for readers.
151. If the IPSASB agrees with the conclusion that a standard similar to IPSAS 23 is still necessary, we suggest that the basic approach in IPSAS 23 would still be appropriate. Any residual revenue standard would need to ask Conceptual Framework type questions. For example, “is there an asset”, “is it a contribution from owners”, “is there a liability” and “how should changes in a liability be accounted for”? A review of IPSAS 23 would need to consider the consistency of IPSAS 23 with the Conceptual Framework, implementation issues associated with IPSAS 23 and the relationship between IPSAS 23 and other IPSASs.

Next Steps

152. This paper has described the matters we have considered in looking at the feasibility and desirability of using a performance obligation approach in an IPSAS dealing with revenue. Having carried out this initial work, our broad views are that:
 - (a) A performance obligation approach is a reasonable basis for accounting for some revenue transactions in the public sector; and
 - (b) A performance obligation approach would not work for many of the transactions currently within the scope of IPSAS 23, and a separate standard to deal with those transactions would still be required.

153. In support of these views, we note that:
 - (a) IFRS 15 is broadly consistent with the IPSASB's Conceptual Framework;
 - (b) A number of public sector standard setters are starting to form views on IFRS 15 or to debate issues associated with IFRS 15; and
 - (c) It might result in a more consistent way of accounting for certain transactions that currently fall within the scope of IPSAS 23, but which have performance obligations.
154. We acknowledge that this approach would result in two revenue standards and preparers would still need to decide which standard to apply.
155. If the IPSASB agrees with these views, we would like to look more closely at how public sector issues could be dealt with in a standard based on a performance obligation approach, and which transactions should be within or outside the scope of such a standard. We would like to bring our views on these issues to the September IPSASB meeting.
156. Once the IPSASB has formed some preliminary views on the scope of such a standard, we would like to focus on the key issues that have been identified in relation to IPSAS 23 and consider how this project could try to address those issues. We would like to bring this work to the December IPSASB meeting.
157. At the December meeting we think the IPSASB should have a reasonable idea of how it would like the project to progress. This would be a good time to consider whether there should be a Consultation Paper for this project.
158. In making decisions about this project, the IPSASB will also want to consider its views on the non-exchange expense project and possible interactions between the two projects. Time has been set aside following the non-exchange expenses agenda item to consider the directions for further development of both these projects.

Matter(s) for Consideration

1. Does the IPSASB agree that:
 - (a) A performance obligation approach is a reasonable basis for accounting for some revenue transactions in the public sector; and
 - (b) A performance obligation approach would not work for many of the transactions currently within the scope of IPSAS 23, and a separate standard to deal with those transactions would still be required?
2. Does the IPSASB agree that further work should be done to explore how a performance obligation approach could be applied to certain revenue transactions in the public sector?
3. Does the IPSASB agree with the proposals for material to be considered at the September and December 2015 meetings?
4. The IPSASB will have an opportunity to discuss the links between this project and the non-exchange expenses project following discussion of agenda item 7.