

Agenda Item 6: Revenue and Non-Exchange Expenses

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IPSASB Meeting

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Decisions Required at Meeting

- Modifications to Structure and Content of Consultation Paper
- Approval?

Project Management

- Agenda Item 6.1.1: Instructions to September Meeting
- Agenda Item 6.1.2: Decisions up to September Meeting
- Agenda Item 6.1.3 Project Roadmap

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1/Agenda Item 6.3.1)

- Material on categorization of public sector transactions in former Chapter 2 relocated to separate and new Chapter 3
- Adoption of five-step approach for Category B revenue and non-exchange expense transactions replacing larger number of public sector characteristics
- Enforceability retained as essential attribute of a modified performance obligation approach, but reflecting public sector mechanisms

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1/6.3.1)

- Chapter 1: Introduction
 - Relocation of material on problems with exchange/non-exchange distinction relocated from Non-Exchange Expenses Chapter
 - Explanatory material on IPSAS 23 implementation issues
 - Time requirements, capital grants, services in-kind
- Chapter 2: Current Revenue Recognition Standards
 - Paragraph 2.16 small amount of additional material on definitions in IPSAS 11, *Construction Contracts*
 - Material on categorization of public sector transactions now in Chapter 3

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1)

- Chapter 3: Analyzing Public Sector Transactions with reference to IFRS 15 Performance Obligation Approach
 - Material on categorization of public sector transactions relocated to this Chapter
 - Simplification of real world acknowledged
 - Material previously in chapter moved to Chapter 3
 - Deletion of Specific Matters for Comment duplicating Preliminary Views

Chapter 3: Preliminary Views

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*, with an IPSAS primarily drawn from IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- a) Involve the transfer of promised goods or services to customers as defined in IFRS 15; and
- b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes identifiable and enforceable performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

Chapter 3: Preliminary Views

Preliminary View 2 (following paragraph 3.9)

Because Category A transactions do not contain performance obligations, IPSASB considers that these transactions will need to be addressed in either a revised IPSAS 23 or a standard incorporating IPSAS 23 principles.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1)

- Chapter 4: The Public Sector Performance Obligation Approach, the Exchange/Non-Exchange Approach and Potential Revisions to IPSAS 23
 - Eight public sector performance obligation approach characteristics in the September version have been reconfigured into Five Steps drawn from IFRS 15 with the steps re-expressed for the public sector.
 - Table has been added summarizing the approach to the three categories of public sector transactions outlined in Chapter 3 under the Public Sector Performance Obligation Approach.
 - More explanatory material has been added on capital grants and a sub-section inserted on services-in-kind, asking whether the existing requirements in IPSAS 23, which permit, but do not require services in-kind to be recognized, should be modified.

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1)

- Chapter 4 (cont).
- Section on Advance Receipts has been deleted as this largely duplicates issues on time requirements.
- Time Requirements and Capital Grants sub-sections have been added on whether adoption of a performance obligation approach would resolve or partially resolve the identified implementation issue?

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1)

- Chapter 5: Non-Exchange Expenses-Initial Recognition
 - As indicated above material on problems with operationalizing the exchange/non-exchange distinction has been relocated to Chapter 1
 - Explanatory material has been added on Other Transfers in Kind
 - Seven public sector characteristics for the Public Sector Performance Obligation Approach reconfigured into the IFRS 15 Five Steps, slightly modified to reflect the non-exchange expenses context

Chapter 5: Preliminary Views

- **Preliminary View 3 (following paragraph 5.13)**
- The IPSASB is of the view that under the Expanded IPSAS 19 Approach collective goods and services do not give rise to obligating events and therefore expenses or liabilities do not arise prior to the delivery of those services to beneficiaries.
- Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

Chapter 3: Preliminary Views

- **Preliminary View 4 (following paragraph 5.14)**
- The IPSASB is of the view that under the Expanded IPSAS 19 Approach other transfers in kind do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of services to beneficiaries
- Do you agree with the IPSASB's Preliminary View 4? If not, please give your reasons.

Modifications to Structure and Content of Consultation Paper (Agenda Item 6.2.1)

- Chapter 6: Measurement

- Terms “non-contractual receivables” and “non-contractual payables” have been adopted, acknowledging that the scope extends beyond “statutory receivables” and “statutory payables” to donations and bequests
- Three approaches for non-contractual receivables have been retained, but the material has been slightly expanded and edited
- Three approaches for non-contractual payables have been retained, but the material has been slightly expanded and edited
- Section has been slightly amended to indicate that it deals with measurement at initial recognition as well as subsequent measurement
- Footnotes have been added indicating the outcome of the South African Accounting Standards Board’s consultation process on non-contractual arrangements that have the characteristics of financial instruments.

Further Preliminary Views? (1)

- Does the IPSASB wish to provide further preliminary views in areas such as:
 - Time Requirements (Chapter 4)
 - Services In-Kind (Chapter 4)
 - Support for PSPOA or Retention of Exchange/Non-Exchange Approach (Chapter 4)
 - Support for a particular approach for Non-Exchange Expenses (Chapter 5)
 - Expanded IPSAS 19 Approach
 - PSPOA
 - IPSAS 23 Reverse Approach

Further Preliminary Views? (2)

- Initial recognition of non-contractual receivables (Chapter 6)
 - a) Best estimated of discounted cash flows
 - b) Face value with impairment if necessary
- Subsequent measurement of non-contractual receivables
 - a) Fair Value or Market Value Approach
 - b) Amortized Cost Approach
 - c) Cost approach

Further Preliminary Views? (3)

- Initial and subsequent measurement of non-contractual payables
 - (a) Best estimate for settlement
- (b) Amortized Cost Approach
- (c) Hybrid Approach

Specific Matters for Comment (SMCs)

Specific Matter for Comment 1 (following paragraph 4.20)

The CP considers the Public Sector Performance Obligation Approach is only appropriate when agreed performance obligations in an arrangement are “identifiable and specific”.

The main criterion for determining when a performance obligation is identifiable and specific is whether the resource recipient has both the ability to determine when a separate performance obligation has been satisfied and an ability to demonstrate to the resource provider that the performance obligation has been satisfied.

- a) Do you agree with the use of the term identifiable and specific?
- b) Do you agree with the criterion for determining when a performance obligation is identifiable and specific?

If you think that the criterion is too restrictive or that additional guidance should be provided please provide suggestions for any amendments.

SMCs

Specific Matter for Comment 2 (following paragraph 4.39)

Do you agree that the cost of delivery approach is the appropriate method for allocating the total amount of funding (or other consideration) across identifiable and specific performance obligation?

If you think that there are alternative options please identify and explain them.

SMCs

Specific Matter for Comment 3 (following paragraph 4.45)

Do you agree that the trigger for revenue recognition in the Public Sector Performance Obligation approach should be when the entity “satisfies the promised performance obligations”?

If you disagree please indicate what should be the trigger for revenue recognition and give your reasons

Specific Matter for Comment 4 (following paragraph 4.61)

- Where an entity transfers resources to a recipient with time requirements, but no conditions do you:
 - » Favor the use of other resources and other obligations to indicate to users that the transferor intends that the recipient uses the resources in one or more future reporting periods; or
 - » Consider that the use of other resources and other obligations is unnecessary and support the use of one or more presentational mechanisms to provide information to users on transactions with time requirements.
- Please explain your reasons.

SMCs

Specific Matter for Comment 5 (following paragraph 4.64)

- (a) Has the IPSASB identified the main issues with capital grants?
- (b) How do you think the IPSASB should modify requirements related to capital grants?

If you think that there are other issues with capital grants please identify them

SMCs

Specific Matter for Comment 6 (following paragraph 4.68)

Do you consider that the IPSASB should:

- a) Modify the requirements of IPSAS 23 to require services in-kind that meet the asset definition and can be measured they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports;
- b) Retain the existing requirements for services in-kind, which permits, but does not require recognition of services in-kind; or
- c) Distinguish services that an entity would have purchased if they had not been donated and services that an entity would not have purchased if they had not been donated and require an entity only to recognize services that would have been purchased.

- Please explain your reasons.

SMCs

Specific Matter for Comment 7 (following paragraph 4.76)

Do you favor the Public Sector Performance Obligation Approach or the Exchange/Non-exchange approach for dealing with Category B revenue transactions?

If you support an alternative approach please describe this approach.

Please give your reasons

SMCs

Specific Matters for Comment 8 (following paragraph 5.46)

Which, if any, of the three models discussed in this chapter do you support:

- a) Expanded IPSAS 19 Model;
- b) The Public Sector Performance Obligation approach; or
- c) The IPSAS 23 Reverse Approach?

Please explain the reasons for your views. If you do not support any of the three approaches please provide details of the approach that you favor.

Specific Matters for Comment 9 (following paragraph 6.18)

Do you agree with option:

- a) Best estimate of the discounted cash flows; or
- b) Face value of the transaction(s) with the amount expected to be uncollectible recognized as an impairment—for the initial recognition of non-contractual receivables?

- Please give your reasons.

SMCs

Specific Matter for Comment 10 (following paragraph 6.34)

Which of the three approaches identified in this chapter for the subsequent measurement of non-contractual receivables do you support:

- a) Fair Value or Market Value approach; or
- b) Amortized Cost Approach; or
- c) Cost Approach?

If you favor an alternative approach please identify that approach and explain it.

Please give your reasons.

Specific Matter for Comment 11 (following paragraph 6.43)

Which of the three approaches identified in this chapter for the subsequent measurement of non-contractual payables to do you support:

- a) Best Estimate for Settlement Approach; or
- b) Amortized Cost Approach; or
- c) Hybrid Approach?

If you favor an alternative approach please identify that approach and explain it.

Please give your reasons



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