Agenda Item 10: Revenue

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Session Outline

Agenda Item 10.2.1

❏ Proposed Scope.

❏ Proposed Terminology Changes to **"Customer"**.

❏ Identification/Definition of a Contract.

Reason to Assess the Scope (Agenda Item 10.2.1)

Broad Scope of Revenue

Gross inflows of Economic benefits or Service potential (not Contribution from Owners).

Some Transactions may need to be accounted in Other Standards

IPSAS 9 Revenue from sale of goods and services, dividends, interest and royalties.

IPSAS 11 Services rendered from Construction of Assets

Ordinary Activities and Activities Outside the Ordinary course of business

- IFRS 15 is only underpinned by Contract.
- Public sector is underpinned by Binding Arrangements

Proposed Scope

○ **In scope – Similar to IFRS 15**
○ **In scope of Other Standards**

Foreign Exchange Gains (IPSAS 4)

Non monetary exchanges between entities in the same line of business.

Binding Arrangements Financial Instruments, Leases and Insurance (IPSAS 41, 13/ED 64 and Insurance National Standards).

Gains on sale of Non-Current Assets (IPSAS 16, 17 and 31)

Revenue from Binding Arrangements with Customers [Includes Licenses (IP and non-IP) and Royalties]

Interest revenue from Leases (IPSAS 13/ED 64).

Changes in fair value of Biological Assets and Investment Properties (IPSAS 27 and IPSAS 16 respectively)

Revenue from Dividends (IPSAS 41)

Interest revenue from Financial Instruments (IPSAS 34, 35, 36, 37 and 41).
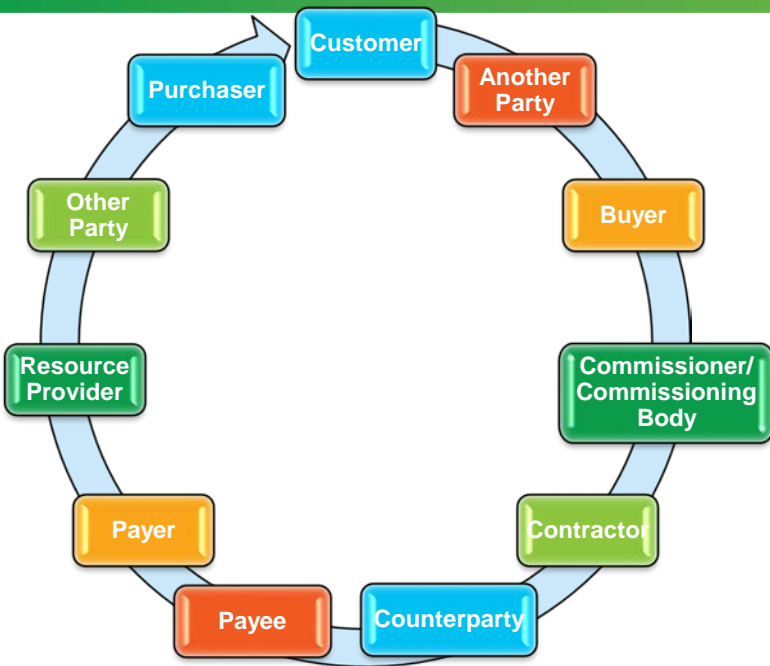
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Non monetary Exchanges – Appropriateness of Example

- Some jurisdictions state that the examples used for **non-monetary exchanges** are **not suitable** for the public sector.
- **IFRS 15** refers to non-monetary exchanges of **Oil.**
- **IPSAS 9** refers to non-monetary exchanges of **Oil** and **Milk.**
- Staff propose use of the example of **Electricity. (Similar to IPSAS 41, *Financial Instruments).***
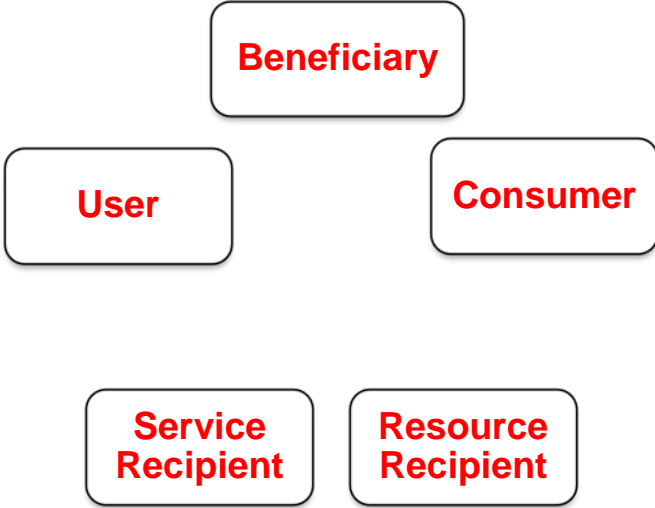
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Proposed Scope (Agenda Item 10.2.1) Decision

1. Does the IPSASB agree with the Proposed Scope?

2. Does the IPSASB agree with changing the example of non-monetary exchanges?

Customer – Various Terms Assessed (Agenda Item 10.2.1)

Circular diagram of terms:
- Customer
- Another Party
- Buyer
- Commissioner/Commissioning Body
- Contractor
- Counterparty
- Payee
- Payer
- Resource Provider
- Other Party
- Purchaser

These terms were not Considered
Counterparties are not Customers in Tripartite Arrangements

Beneficiary

User

Consumer

Service Recipient

Resource Recipient

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Customer – Tripartite Arrangements (Agenda Item 10.2.1)

Public Sector Transactions often involve **Three Parties**

- **Resource provider** – Customer that provides/pays the consideration. Not necessarily the party that receives the goods and services.
- **Resource/service recipient** - Receives the consideration and delivers goods and services.
- **Beneficiary of those services** - Individuals or households.
- Example, Central government (Customer) provides funding to a Regional Health Department (Resource Recipient) to conduct bone density screening for Citizens (Beneficiaries) over 55 years of age.

Customer – Various Terms Assessed (Agenda Item 10.2.1)

Payer

Counterparty

Payee

Buyer

Contractor

Other Party

Another Party

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

- Another Party, Counterparty, Other Party, Payee and Payer **are not acknowledged in the Conceptual Framework.**
- **Not widespread in IPSAS literature**.

Customer

Commissioner/ Commissioning Body

- **Customer is more suitable for the private sector**. **(Aligned to IFRS 15).**

- **Commissioner** refers to a person appointed to a specific role.
- **Commissioning Body** refers to a group of people charged with certain duties. (Commission of Inquiry/Government Agency/ Board).

Proposed Terms - (Agenda Item 10.2.1)

Recommended Term	Alternative Term
Resource Provider	**Purchaser**
Conceptual Framework. - Suitable for Public Sector Tripartite Arrangements. **No proper definition in the Conceptual Framework and Other IPSAS literature.**	- Widespread in the IPSAS literature. - Suitable for Public Sector Tripartite Arrangements. **No proper definition in the Conceptual Framework and Other IPSAS literature.**

Proposed Term – Decisions

1.   Does the IPSASB agree with the term "Resource Provider"?

2.   If not, does the IPSASB agree with the alternative term, "Purchaser"?

Identification/Definition of a Contract (Agenda Item 10.2.1)

#	Criteria to be met (IFRS 15)	Applicability to Public Sector
1.	Parties have **approved** the Contract.	**Yes = Binding Arrangement**
2.	Party's **rights** regarding the goods or services to be transferred are **identified.**	**Yes**
3.	**Payment terms** identified.	**Yes**
4.	Commercial substance.	**Yes = Economic Substance.**
5.	**Collection of consideration is Probable (Customer's Ability and Intention to Pay)**	**?**

Identification/Definition of a Contract continued (Agenda Item 10.2.1)

Implications of the Probability Criterion

1. Collection of consideration NOT PROBABLE = Not in the Scope of IFRS 15 and No recognition – Continuous Assessment.

2. If collection of consideration IS PROBABLE = In the Scope of IFRS 15.

3. **Private sector entities generally enter into Contracts which are probable to collect payment. Small Population of Contracts are not Probable**.

4. **Public sector entities have numerous contracts which are not probable. Does that mean that such contracts are not in the scope of Revenue?**

Identification/Definition of a Contract continued (Agenda Item 10.2.1)

High ⟷ **Low**

Option 1
Remove Step 5
(More contracts are in the scope).

- Revenue recognized for all contracts.
- Impairment assessed subsequently.

- **Accountability** (Management of Revenue and Receivables).
- **Premature** recognition of revenue. (Departure from IPSAS).

Option 3
Retain 5 Steps with Additional Application Guidance to Step 5.

- Application Guidance that **permits and not require recognition of contracts** that are not probable **as there are material to the public sector.**

- **Similar to IPSAS 23** (Services-in Kind).
- **Extensive Disclosures.**
- **Options reduce Comparability.**

Option 2
Retain 5 Steps
(Similar to IFRS 15. Few contracts in scope).

- Revenue is recognized when probable and not recognized when not probable.
- Continuous Assessment.

- **Aligned to IPSAS 9 & IFRS 15.**
- **Faithful representation** (Only probable items are recognized).
- **Increased subjectivity** (Assessing probability).

Identification of a Contract
Decision

1. Which Option does the IPSASB elect?

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