

# Revenue with Performance Obligations (ED 181) and Revenue without Performance Obligations (ED 182)

Technical Committee

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- ED 181 key issues
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# Content (continued)

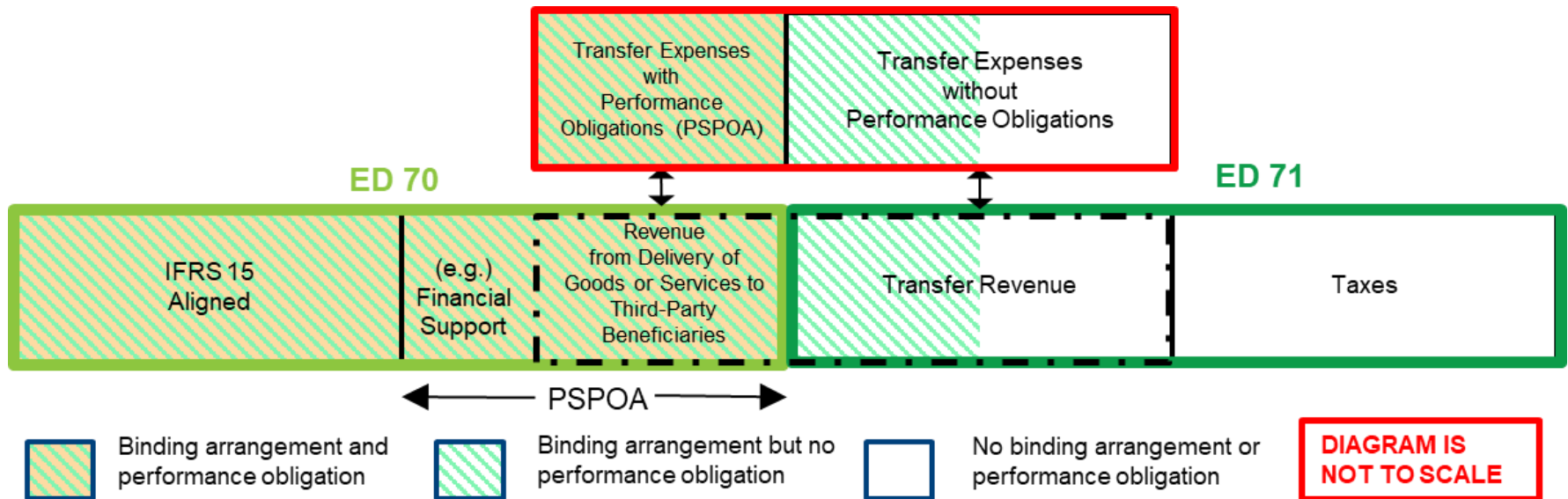
- ED 182 key issues
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  3. Change in measurement from IPSAS 23
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# Overview of Exposure Drafts

# Overview of EDs

## Links between ED 70, ED 71 and ED 72



Source: IPSASB

# Overview of EDs

## Links between ED 70, ED 71 and ED 72

Transactions	ED 70 <i>Revenue with Performance Obligations</i>	ED 71 <i>Revenue without Performance Obligations</i>			ED 72 <i>Transfer Expenses</i>			Outside Scope of ED 72
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B to undertake specified activities or incur eligible expenditure		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

Source: IPSASB



# Local exposure process



# Local exposure process

- Published as ED 181 to ED 183, with overview
- Comment deadline 1 October 2020
- Two rounds of outreach (virtual / face-to-face):
  - Education sessions
  - Roundtable discussions





# Local exposure process

- Various groups of stakeholders incl.
  - Public entities, provincial treasuries, Parliament, provincial legislatures
  - Municipalities
  - Auditors, firms, technical specialists, professional bodies, academics
  - Public Sector Accounting Forum
- Letters to stakeholders



# Revenue with Performance Obligations (ED 181): Key issues





# Key issue #1: Use of “binding arrangement”

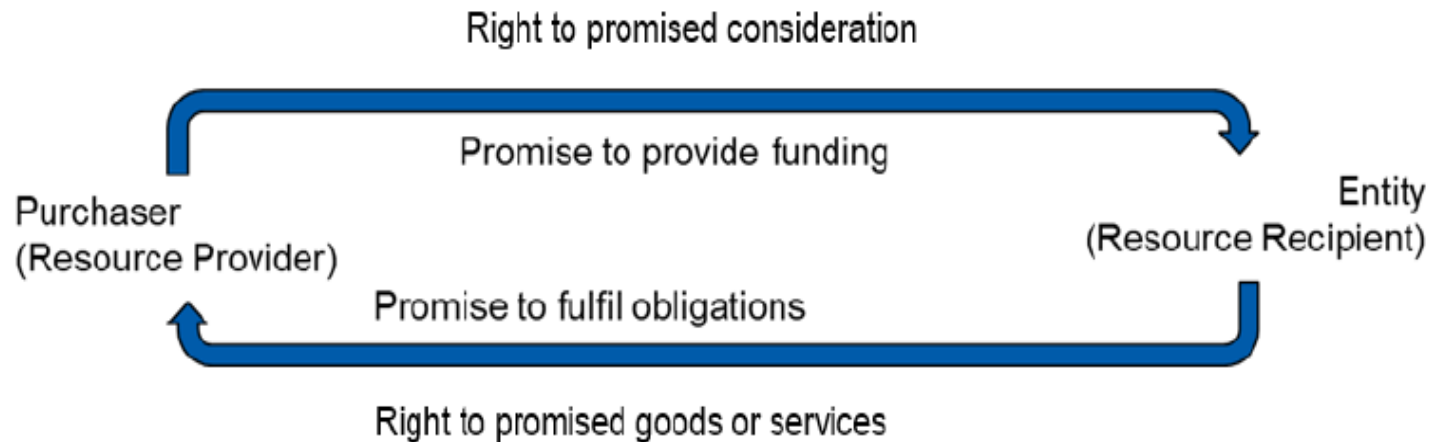


# Both rights and obligations for both parties

IFRS 15 – contracts / ED 181 – “binding arrangements”

➔ NB as it determines scope of transactions in ED

*“... an arrangement that confers both enforceable rights and obligations on both parties to the arrangement”*



# Not just contracts...

## Accounting implications: Scope

IPSASB intends to broaden IFRS 15 approach for public sector by “binding arrangement” instead of “contract”

Implication 1	<p>5-step IFRS 15 approach developed for contracts.</p> <p>Appropriate for binding arrangements?</p>
Implication 2	<p>Wider: includes legislation + secondary legislation</p> <p>Narrower: two-way rights and obligations</p> <p>All other transactions fall in ED 182</p>



# Key issue #2: Change in approach



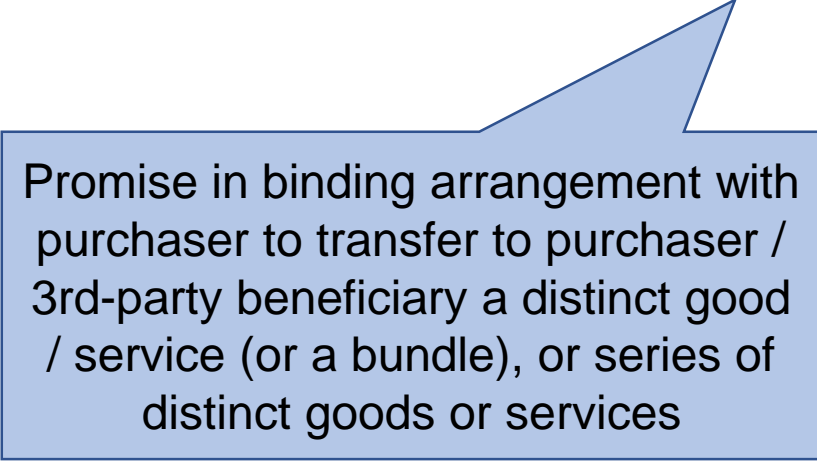
# Change in approach



Exchange /  
non-  
exchange



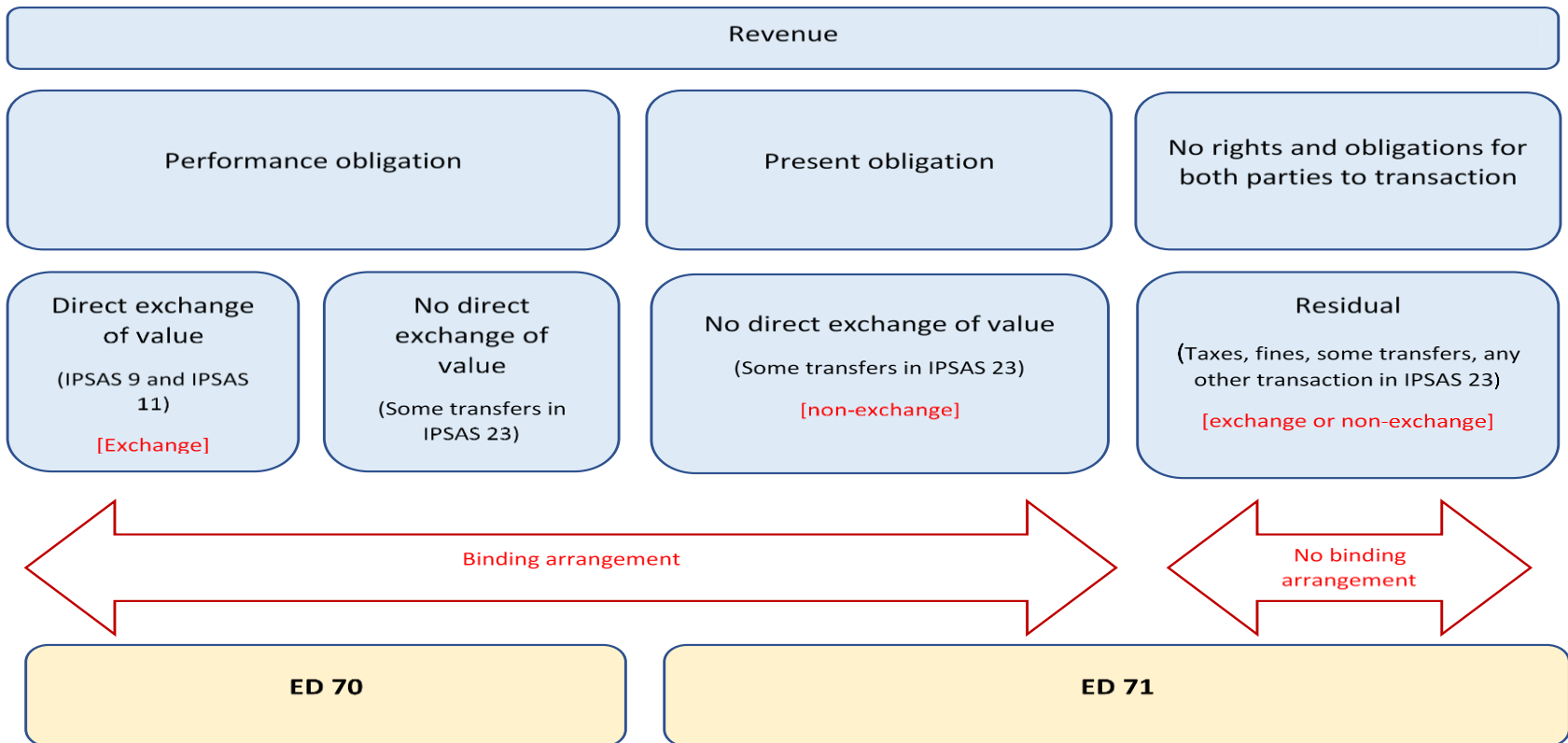
With / without  
performance  
obligations



Promise in binding arrangement with purchaser to transfer to purchaser / 3rd-party beneficiary a distinct good / service (or a bundle), or series of distinct goods or services

# Change in approach

## Current vs proposed revenue recognition model



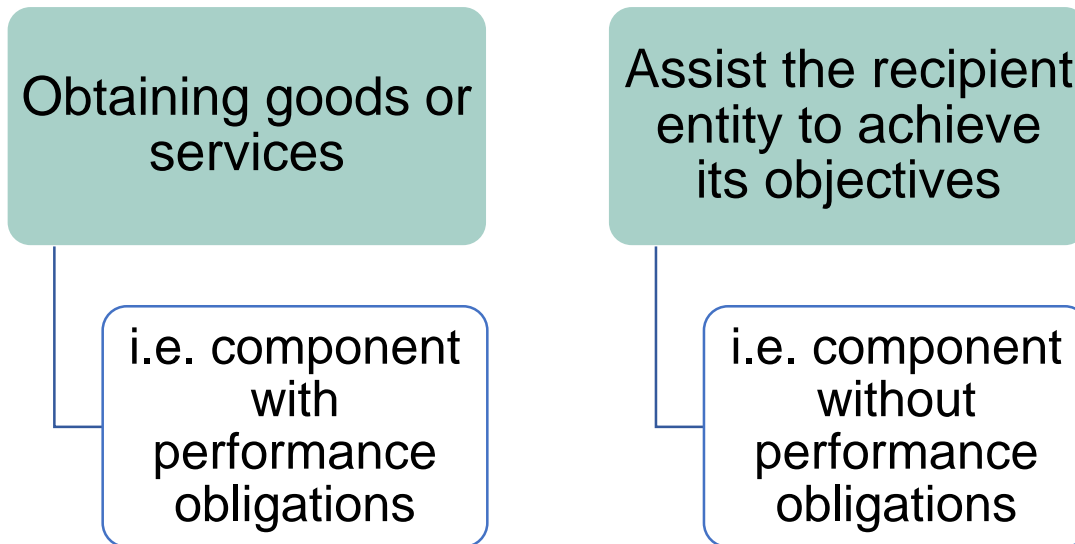




# Key issue #3: Transactions with components

# Transactions with components

- Dual purpose transactions in public sector



- Difficult with exchange / non-exchange to separate

# Transactions with components

Proposal in ED 181 to separate and/or initially measure components:

- (a) Another IPSAS specifies how
- First apply separation and/or measurement requirements in other IPSAS
  - Apply ED 181 to allocate transaction price that remains (if any) to each performance obligation in scope of ED 181

# Transactions with components

Proposal in ED 181 to separate and/or initially measure components:

(b) No other IPSAS specifies how

- Apply ED 181 to separate and/or initially measure components

 More complex?



# Key issue #4: Compelled transactions

# Compelled transactions

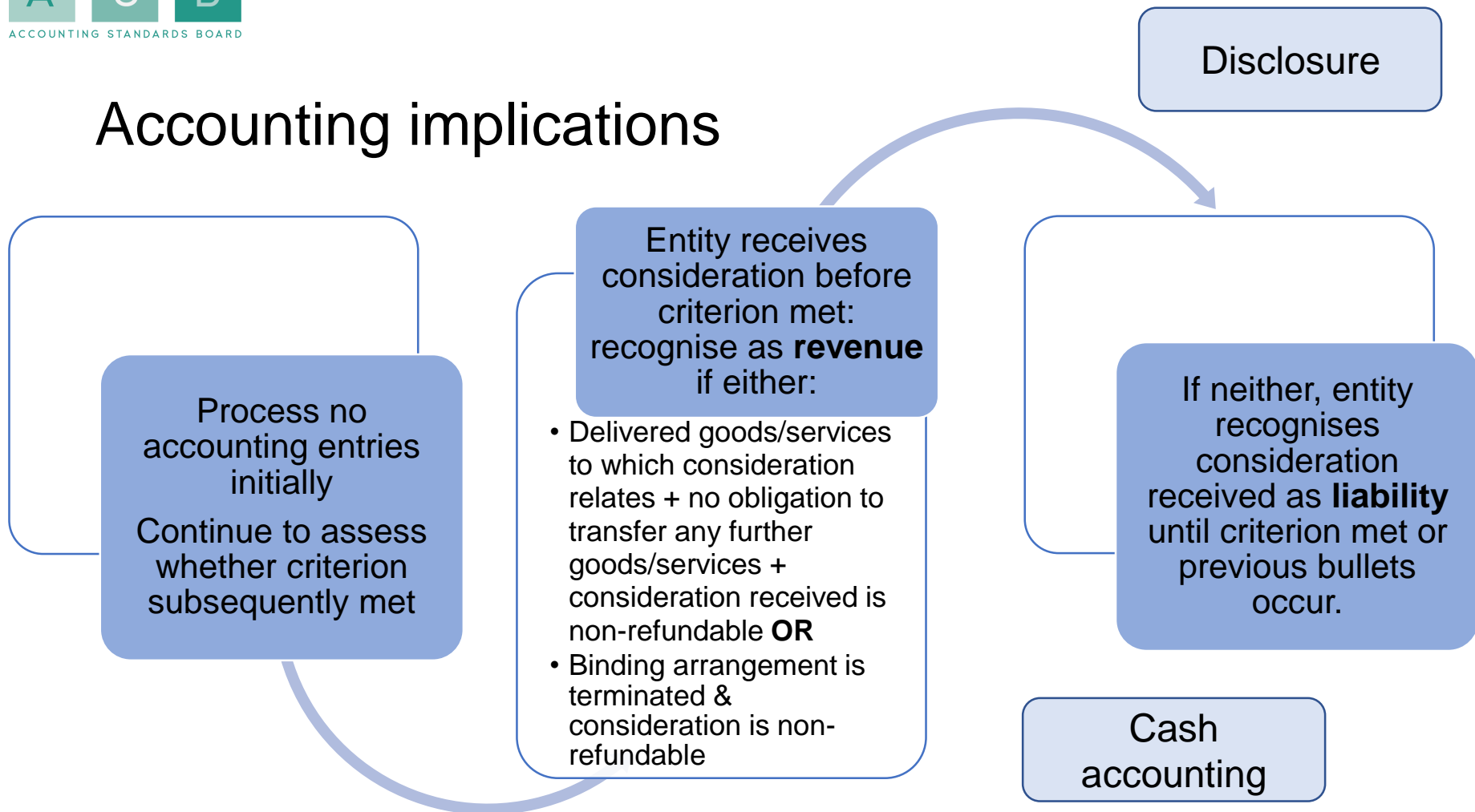
- Nature of public sector: Entities may be compelled to deliver goods/services to a purchaser, regardless of purchaser's ability or intention to pay
  - E.g. municipality providing water to households

# Compelled transactions

- Part of criteria to account for binding arrangement:
  - Probable that entity will collect consideration to which it will be entitled
  - To assess - consider purchaser's ability & intention to pay

# Compelled transactions

## Accounting implications







# Compelled transactions

## *Local implications*

- IGRAP 1: not consider counterparty's credit risk on initial recognition; credit risk assessment impacts subsequent measurement of related receivable
  - Enables accountability for collecting revenue entities entitled to
- ED 181 impact: could go from recognising revenue in full when goods / services are provided to recognising no revenue until cash received



# Revenue without performance obligations (ED 182): Key issues



# Key issue #1: Scope of ED 182 compared to ED 181

# Scope of ED 182 compared to ED 181

- Performance obligations as approach instead of exchange / non-exchange
  - difficulty in making the distinction between exchange & non-exchange transactions
- ED 181 and ED 182 = all revenue transactions

ED 181	ED 182
Binding arrangements with performance obligations	a) Binding arrangements with present obligations
	b) No binding arrangement

# Scope of ED 182 compared to ED 181

## (a) Binding arrangements *with present obligations*

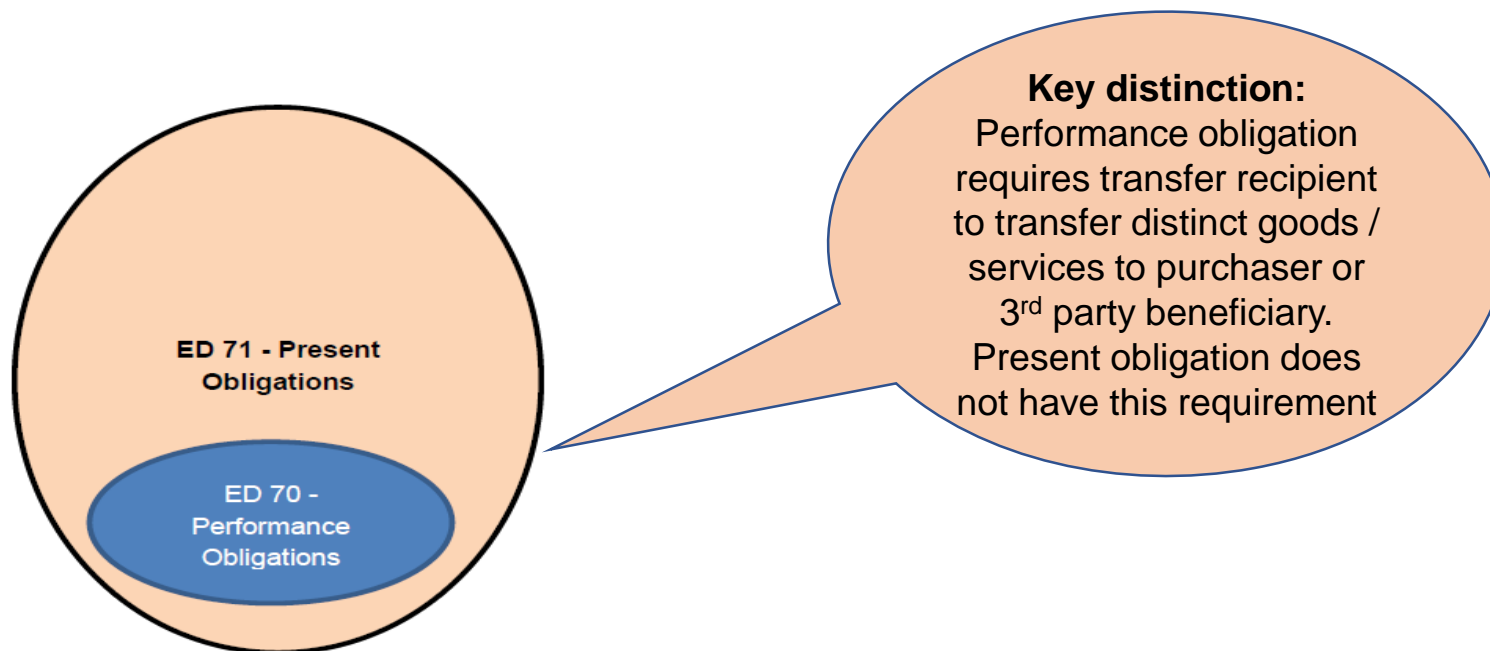
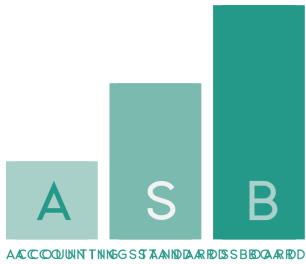


Diagram not to scale

Source: IPSASB

# Scope of ED 182 compared to ED 181

- (b) No binding arrangements (residual category)
- Proposed accounting:
    - Revenue recognised immediately when entity recognises asset
    - For taxes = when the taxable event occurs
  - At present (IPSAS 23):
    - recognise revenue to the extent that liability not recognised, based on conditions
  - Potential implication:
    - may result in a change in timing of revenue recognition for certain transactions



# **Key issue #2: Present obligations in the context of revenue**



# Present obligations in the context of revenue

- Present obligation in ED 182:  
*“binding obligation (legally or by equivalent means), which entity has little or no realistic alternative to avoid and which results in outflow of resources”*
- Result from:

## Specified activities

- *“A particular action, stated in a binding arrangement, that the transfer provider can compel the transfer recipient to perform”*
- E.g. constructing a hospital / conducting research

## Requirement to incur eligible expenditure

- Requirement to spend transfer on particular expenditure, not specified activity
- E.g. paying salaries / office rent



# Present obligations in the context of revenue

## Accounting proposals

- Like IPSAS 23, starting point is asset

Asset recognised

Contra entry:

Liability recognised for present obligations

Revenue recognised to extent that liability not recognised



Liabilities because:

- Past event = binding arrangement
- Outflow of resources = fulfil requirements / repay / **penalty (?)**
- Enforceable = no realistic alternative

# Present obligations in the context of revenue

## Impact of accounting proposals

- IPSAS 23 present obligations (liabilities) from conditions which include return obligation
- No present obligations (liabilities) for restrictions
- Penalties = arise from breaches; are separate events

*Therefore...*

- ED 182 specified activities / eligible expenditure = more present obligations (liabilities) than IPSAS 23 i.e. more deferred revenue



# Key issue #3: Change in measurement from IPSAS 23

# Change in measurement from IPSAS 23

IPSASB view:

Measurement requirements largely  
unchanged

# Change in measurement from IPSAS 23

## Transfers

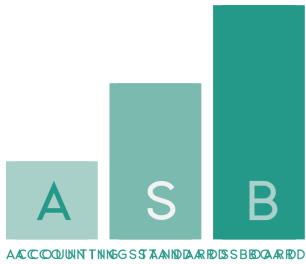
	IPSAS 23	ED 182
Asset	FV (consistent with IPSAS)	<ul style="list-style-type: none"> <li>• Monetary asset – “transaction price”               <ul style="list-style-type: none"> <li>➤ Variable inflow requires range of possible amounts based on past, current &amp; forecast data</li> </ul> </li> <li>• Non-monetary asset – FV (similar to IPSAS 23)</li> </ul>
Revenue	Value of asset (to extent liability not recognised)	Similar to IPSAS 23
Liability	IPSAS 19 best estimate to settle present obligation	Similar to IPSAS 23

# Change in measurement from IPSAS 23

## Taxes

	IPSAS 23	ED 182
Asset	Best estimate of inflow of resources (aligned to principles of FV)	“Transaction price” (as explained for transfers)
Revenue	Value of asset (to extent liability not recognised)	Similar to IPSAS 23

In our opinion – a big change



# **Key issue #4: Statutory receivables (subsequent measurement)**

# Statutory receivables (subsequent measurement)

- Subsequently measure receivables as follows:
  - (a) Financial assets = IPSAS 41
  - (b) Other receivables = amortised cost per IPSAS 41
- Other receivables comparable to GRAP 108
- Complexity with amortised cost:
  - Effective interest rate method
  - ECL
    - Onerous
    - Appropriate for statutory receivables?



# Statutory receivables (subsequent measurement)

	GRAP 108 “cost method”	ED 182 amortised cost
Initial measurement	<p>Fair value = “transaction amount”</p> <p>Amount specified in, or calculated/charged in accordance with legislation/similar means</p>	<p>Fair value = IPSAS 41</p> <p>Requires identification of non-market elements, &amp; assessing impact of providing credit</p>
Subsequent measurement: interest	<p>Interest &amp; penalties recognised only if specified in legislation</p>	<p>Calculate by using effective interest method</p>
Subsequent measurement: impairment	<p>Incurring loss model</p> <p>Assess at reporting date whether indication that impairment loss should be calculated by comparing carrying amount to cash flows expected to receive, discounted if time value of money material</p>	<p>ECL model</p> <p>Unbiased &amp; probability-weighted amount, by evaluating range of possible outcomes with possible risk of default occurring as weight. Consider time value of money, past, present &amp; forecast data, economic conditions of borrower &amp; in general</p>

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