**ED 182**

**Comments due by 1 October 2020**

# ACCOUNTING STANDARDS BOARD

# INVITATION TO COMMENT ON THE PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD ON

# REVENUE WITHOUT PERFORMANCE OBLIGATIONS

# (ED 182)

**Issued by the**
**Accounting Standard Board**

**March 2020**

# Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed International Public Sector Accounting Standard on *Revenue without Performance Obligations* (ED 182).

Comment received on this Exposure Draft will be used in formulating a response to the IPSASB. Comment should be submitted in writing so as to be received by **1 October 2020**. E-mail responses are preferred. Unless respondents to the Exposure Draft specifically request confidentiality, the comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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## Background to the project

### Project rationale

The International Public Sector Accounting Standards Board (IPSASB) became aware of constituents' concerns regarding the application of the International Public Sector Accounting Standard on *Revenue from Non-Exchange Transactions (Taxes and Transfers)* (IPSAS 23). These concerns include:

- difficulty in making the distinction between:
    - exchange and non-exchange transactions;
    - resources subject to a condition or a restriction; and
- a lack of guidance on:
    - multi-year funding arrangements;
    - taxation received in advance of the period in which it is intended to be used; and
    - accounting for capital grants and services in-kind.

The IPSASB agreed to consider addressing these concerns as part of its broader revenue and non-exchange expense project, as explained in "The need for consistent principles in accounting for revenue and expenses" below. The IPSASB issued ED 71 on *Revenue without Performance Obligations* as an update to IPSAS 23.

### Accounting for revenue in the public sector

IPSAS currently distinguish revenue transactions based on whether there is a direct exchange of approximately equal value by the entity in return for the resources received or receivable. The accounting requirements therefore follow from whether revenue transactions are exchange or non-exchange transactions.

IPSAS 23 provides guidance on how to account for revenue that arises from non-exchange transactions, which account for a large proportion of public sector revenue. These transactions include revenue from taxes and transfers.

The IPSASB issued a Consultation Paper on *Accounting for Revenue and Non-exchange Expenses* in 2017. This Consultation Paper was driven by the need to align existing IPSAS on revenue to the International Financial Reporting Standard on *Revenue from Contracts with Customers* (IFRS 15®). As IFRS 15 recognises revenue based on the satisfaction of performance obligations, views were requested about whether (a) the International Public Sector Accounting Standards on *Revenue from Exchange Transactions* (IPSAS 9) and *Construction Contracts* (IPSAS 11) should be aligned to IFRS 15, and (b) whether a performance obligation approach should be adopted for non-exchange expenses.

Based on feedback received, the IPSASB decided to revise IPSAS 9 and IPSAS 11 to outline accounting requirements for "transactions with performance obligations". IPSAS 23 would be retained and updated to deal with "transactions without performance obligations". The change in approach means that transactions from a revenue perspective are no longer defined as "exchange" or non-exchange", but rather as transactions "with performance obligations" or "without performance obligations". This change towards the recognition of revenue based on the satisfaction of performance obligations is called the "public sector performance obligation approach (PSPOA)".

ED 71 provides the accounting for the following types of transactions, as an update to IPSAS 23:

(a) revenue transactions from binding arrangements without performance obligations, but with present obligations; and

(b) revenue transactions which do not arise from a binding arrangement. While these transactions may not arise from binding arrangements, they may be as a result of another arrangement such as legislation.

ED 71 establishes broad principles for the recognition of revenue from transactions without performance obligations, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities.

**The need for consistent principles in accounting for revenue and expenses**

As entities in the public sector often transact with one another, there is a need for either party to approach the accounting using consistent principles. For example, if one level of government is paying money to another level of government, the accounting principles applied for revenue and expenses should be consistent.

Two Exposure Drafts have been issued for revenue:

- ED 70 on *Revenue with Performance Obligations*
- ED 71 on *Revenue without Performance Obligations*

Given the need to apply consistent principles for revenue and expense transactions, the IPSASB issued ED 72 on *Transfer Expenses* to explain the application of the PSPOA to the last remaining area where guidance was needed, i.e. non-exchange expenses. Given the use of the PSPOA in ED 72, there are strong links with the principles in ED 70 and ED 71.

## Impact of Exposure Draft in South Africa

### Link between IPSASB and Standards of GRAP

The Board has a policy of aligning Standards of GRAP with IPSAS where this meets the ASB's mandate and strategic objectives. As the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9)*, Construction Contracts* (GRAP 11) and *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23) are based on the IPSAS equivalents, any change in the underlying IPSAS means that the Board would need to consider whether or not it should align with any new or revised IPSAS that is issued. Equally, because there is no existing Standard of GRAP on transfer expenses, the Board would consider whether this should be issued as a Standard of GRAP.

The work of the Board is driven by a three-year work programme. The work programme for 2021 to 2023 was published in December 2019. As the IPSASB will still take some time to issue the final IPSAS for revenue and transfer expenses, the Board decided not to add these projects to its work programme for 2021 to 2023. The consultation on the work programme for 2024 to 2026 will decide whether these projects should be initiated. Until such time as the Board issues revised Standards of GRAP, entities should continue to apply GRAP 9, GRAP 11 and GRAP 23.

The Secretariat of the ASB will continue to be involved in the international standard-setting process and contribute to the development of these projects at the IPSASB.

**Which entities might be affected?**

ED 71 deals with revenue without performance obligations. Most entities receive revenue from transactions without performance obligations. For example, grants, taxes, fines and donations.

As a result, ED 71 will affect most, if not all, entities that apply Standards of GRAP.

## Commenting on the Exposure Draft on *Revenue without Performance Obligations*

**Due process and timetable**

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft. The comment received will be used to formulate a comment letter to the IPSASB.

**Available materials**

The IPSASB has developed an "At-a-Glance" document that outlines the high-level principles and concepts of ED 71. This can be accessed on the ASB's website along with the other materials for the concurrent Exposure Draft:

A webcast is also available on the IPSASB's website: https://www.youtube.com/watch?v=ySHwbgekOzc&feature=youtu.be

**Invitation to comment**

Comment on this Exposure Draft is invited by **1 October 2020**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate.

There are a number of specific matters for comment on which the IPSASB would appreciate feedback. These are outlined below.

## Specific matters for comment

The IPSASB would appreciate feedback to the following questions.

**Specific Matter for Comment 1: (Paragraphs 14 to 21)**

The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue without Performance Obligations*, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?

**Specific Matter for Comment 2: (Paragraph 31)**

The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition. Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?

**Specific Matter for Comment 3: (Paragraph 57 to 58)**

The IPSASB decided that a transfer recipient recognises revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognised? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?

**Specific Matter for Comment 4: (Paragraphs 80 to 81)**

The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognised is a proportionate amount of the resource inflow recognised as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?

**Specific Matter for Comment 5: (Paragraphs 84 to 85)**

Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, *Financial Instruments*? If not, how do you propose receivables be accounted for?

**Specific Matter for Comment 6: (Paragraphs 126 to 154)**

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

**Specific Matter for Comment 7: (Paragraphs N/A)**

Although much of the material in this [draft] Standard has been taken from IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), *Transfer Expenses*.

Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?

## Other matters

As with any other Exposure Draft, comment on any other matter would be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs in your response.