Agenda Item 6: ED 70, Revenue with Performance Obligations

Edwin Ng, Principal

IPSASB Meeting
Abu Dhabi, United Arab Emirates
December 10–13, 2019
ED 70, Revenue with Performance Obligations

Project management: Stocktake

Road Map – progress to date and future meeting plans

Board Instructions – satisfied with actions taken?

Board Decisions – previous decisions taken and key future issues

Other Issues?
ED 70, Revenue with Performance Obligations

Session Outline

- Themes from November In-Period Review
- Key Changes to ED 70 since November 6, 2019
- Compelled Transactions where Collectability is not Probable
- Approval of ED 70
ED 70, Revenue with Performance Obligations
Themes from November In-Period Review - (Agenda Item 6.2.1)

Most Comments Related to Cross-Cutting Issues

• Definition of “Transfer Revenue with Performance Obligations” and “Transfer Revenue” – See Agenda Item 5.2.3
• Disclosures – See Agenda Item 5.2.4
• Binding Arrangements – See Agenda Item 5.2.5
• Examples / Editorials – See Agenda Item 5.2.6

ED 70-Specific Issue

• Clarification of Accounting and Disclosure of Compelled Transactions – See Agenda Item 6.2.3 and slides 7 to 9
Substantive Changes Since November 6, 2019

• “Hybrid” ED 70 and ED 71 transactions (AG70, AG71 & BC55)
  - Separation into ED 70 and ED 71 components still based on whether binding arrangement specifies that only a portion of consideration is refundable if performance obligations are not fulfilled
    • Implies the portion which will be refunded relates to performance obligations
    • Implies the portion which will not be refunded does not relate to performance obligations and is within scope of ED 71
  - Added explanation of why the above approach was used, including clarification of why a measurement-based criteria was not used, to the BC55
Other Substantive Changes Since November 6, 2019

• Determination of stand-alone price when there is no market information (AG92)
  – Changed from use of “replacement cost” to “expected cost approach”
• Subsequent measurement of receivables (AG142 & AG143)
  – Simplified wording of AG paragraphs. See Agenda Item 8.2.4

Matter for Consideration

• Does the IPSASB agree with the Staff’s recommendations?
Compelled Transactions where Collectability is not Probable – (Agenda Item 6.2.3) (1/3)

Paragraphs 120, AG32, BC32 – BC38, and BC46 were Amended

• In response to multiple questions on how paragraphs 120 and AG32 are to be applied, the Staff:
  – Clarified accounting once a price concession per AG32 has been accepted
  – Updated paragraph 120 disclosures to also include unrecognized amounts which were considered a price concession in AG32
  – See slides 8 for 9 for a summary of how requirements would be applied

Matter for Consideration

• Does the IPSASB agree with the Staff’s recommendation?
Compelled Transactions where Collectability is not Probable – (Agenda Item 6.2.3) (2/3)

Criterion 8(e) is met

- No collectability issues
- No specific disclosures regarding compelled transactions required
- Use 5-step revenue recognition model
- Use 5-step revenue recognition model but on transaction price net of price concession
- Disclose amounts recognized as revenue and amounts considered to be a price concession per revised paragraph 120
- Consider impairment for shortfalls in actual collections
- Changes in expected collections treated as change in variable consideration or impairment
- Reassess if paragraph 8 continues to be met if significant changes in facts and circumstances occur (paragraph 12)

2 possible outcomes

8(e) Met

8(e) is met once AG32 is applied and collection of reduced transaction price is probable

Reassess if paragraph 8 continues to be met if significant changes in facts and circumstances occur (paragraph 12)
Compelled Transactions where Collectability is not Probable – (Agenda Item 6.2.3) (3/3)

**Criterion 8(e) not met**

- Could not estimate expected amount to be collected but collected some consideration
  - Account for consideration collected using paragraphs 14 and 15
    - Disclose amounts recognized as revenue and amounts not recognized per revised paragraph 120
      - Any additional consideration collected is recognized in accordance with paragraphs 14 and 15
        - Continue to reassess if paragraph 8 is met (paragraph 13)
  - No initial accounting
    - Disclose amounts not recognized as revenue per revised paragraph 120
      - Any consideration collected is recognized in accordance with paragraphs 14 and 15
        - Continue to reassess if paragraph 8 is met (paragraph 13)

2 possible outcomes

- Could not estimate expected amount to be collected and no amounts collected yet
The IPSASB is asked to

- Confirm it is satisfied there are no additional issues to be discussed by the IPSASB at this time;
- Approve [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations, for comment; and
- Confirm an exposure period ending August 31, 2020.