

# REVENUE AND TRANSFER EXPENSES

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# Snapshot of Guidance Source Material

Guidance Section	Revenue		Transfer Expenses
	IFRS 15	IPSAS 23	ED 72
Objective, Scope, Definitions	✓	✓	✓
Existence of a Binding Arrangement	✓	✓	✓
Accounting Model: without Binding Arrangement		✓	✓
Accounting Model: with Binding Arrangement	✓	✓	✓
Presentation and Disclosure	✓	✓	✓

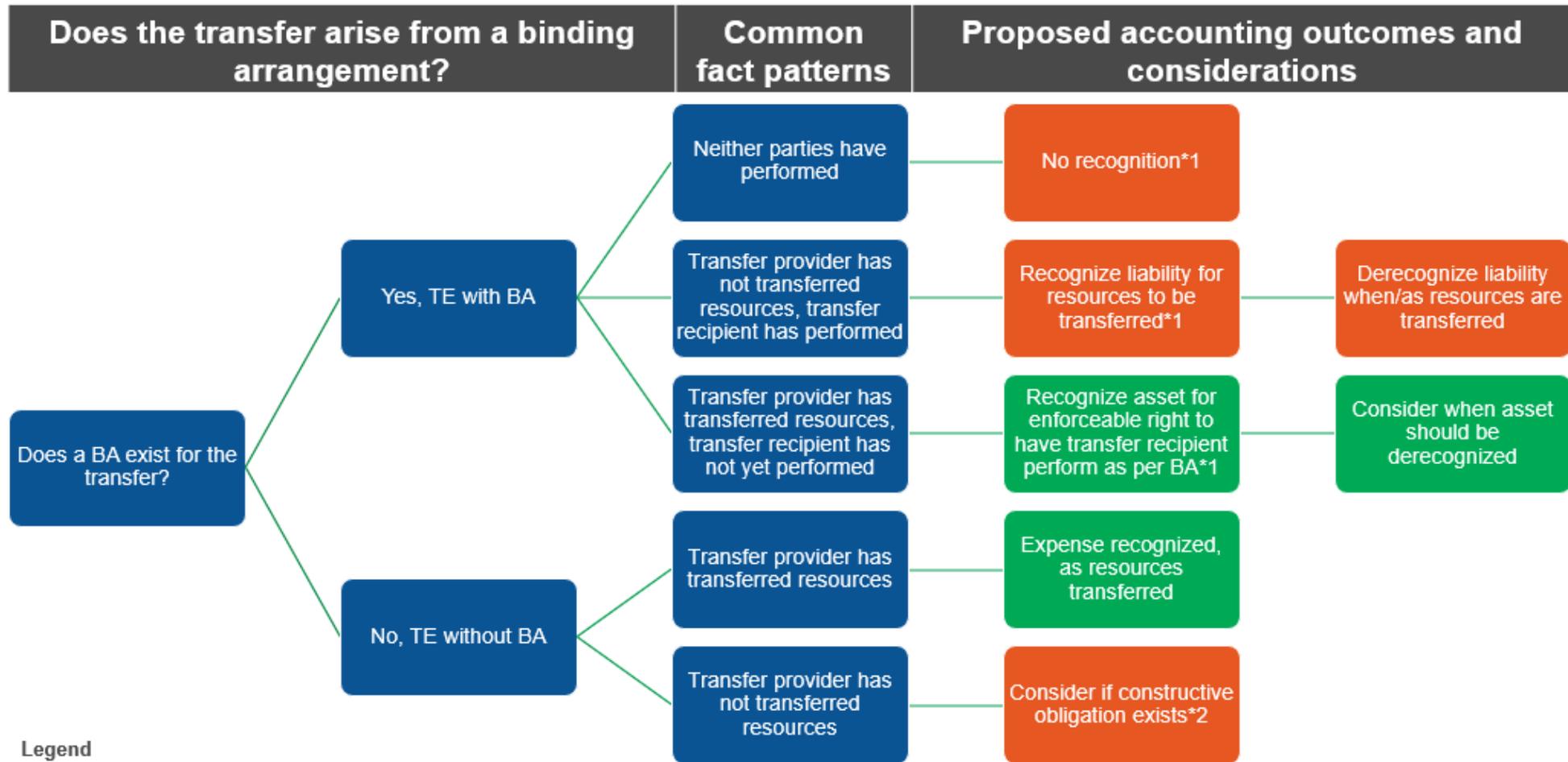
# Landscape of the Transfer Expenses Project

## Key Decisions from Previous Meetings

- Need to consider the perspective of the entity
- Transfer provider should account for a transfer expense based on its rights from a binding arrangement
- The transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset



# Landscape of the Transfer Expenses Project



**Legend**

- Discussed in Agenda Item 3.2.2.
- Discussed in Agenda Item 3.2.3.

\*1 Consider if the binding arrangement indicators impairment of the underlying asset(s) to be transferred. See Agenda Item 3.2.5.

\*2 Even when a transfer expense arises from a binding arrangement, there could be situations where a constructive obligation could exist outside of the arrangement. See Agenda Item 3.2.3.

# Accounting for Transfer Expenses

## Recommendation

- Staff recommend revising the transfer expense accounting model to emphasize:
  - The key accounting principle is determining whether the expenditure should be accounted for as an asset or expense; and
  - When the transaction arises from a binding arrangement, it helps with this determination
- Transfers with a binding arrangement:
  - Board has previously decided that the transfer provider's enforceable right is an asset
  - Key issue is when this transfer right asset should be derecognized
- Transfers without binding arrangements: Expense upon transfer

Does the IPSASB agree with this recommendation?

# Recognition of a Liability Prior to the Transfer

## Recommendation

- Existence of a constructive obligation:
  - Can occur even without a binding arrangement;
  - Depends on facts and circumstances
- Staff recommend that prior to the transfer of resources, a transfer provider should recognize a liability:
  - If the transfer recipient has already fulfilled their obligations in the binding arrangement; or
  - If a constructive obligation to transfer resource exists and results in the recognition of a liability under IPSAS 19
- Paper proposes path forward to incorporate IPSAS19 into draft transfer expense standard

Does the IPSASB agree with this recommendation?

# Application of Revised Transfer Expense Model to Appropriations

## Recommendation

- Staff recommend applying the general principles for transfer expenses to appropriations, with treatment determined by nature of jurisdiction process:

Appropriation arises from binding arrangement

- Apply general principles from Agenda Item 3.2.2

Appropriation creates a constructive obligation

- Apply IPSAS 19, as discussed in Agenda Item 3.2.3

No binding arrangement or constructive obligation

- Expense transferred assets upon loss of control

Does the IPSASB agree with this recommendation?

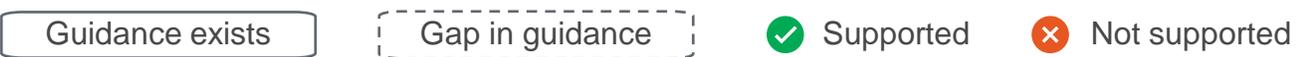
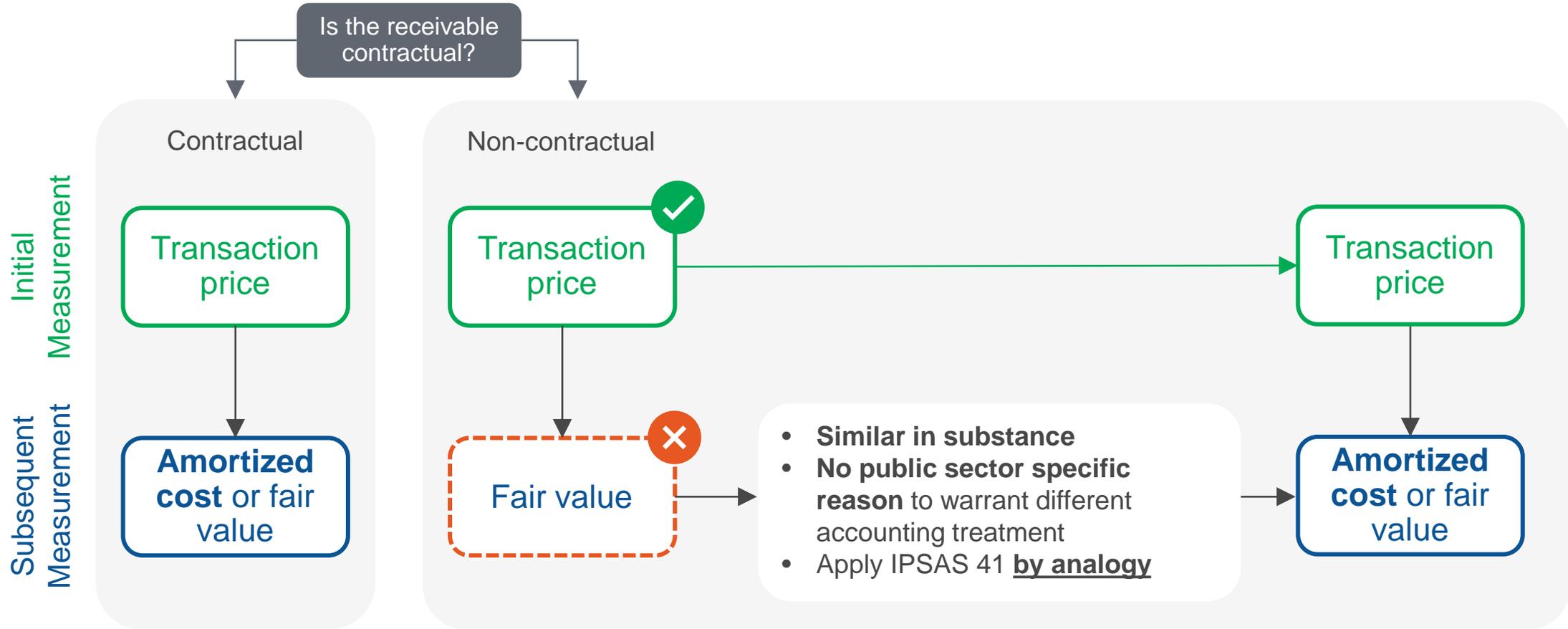
# Proposed Amendments to Address Impairment and Onerous Contracts

## Recommendation

- The IPSASB previously:
  - Decided that guidance on onerous contracts in IPSAS 19 is not applicable to transfer expenses
  - Instructed staff to consider the application of impairment, as noted in paragraph 80 of IPSAS 19
- To address the above, staff recommend revising draft transfer expense standard to:
  - Emphasize the need for the transfer provider to consider if a binding arrangement provides any indication that the asset(s) to be transferred are impaired;
  - Explain in the BCs that the concept of onerous contracts only applies to contracts for exchange of assets or services and not transfer expenses

Does the IPSASB agree with this recommendation?

# Subsequent Measurement for Non-Contractual Receivables



# Subsequent Measurement for Non-Contractual Receivables

## ED Responses

Support from majority of ED respondents

Some respondents disagreed because it is:

1. Unclear how non-contractual receivables would meet the financial instrument definition; and
2. Difficult to apply the requirements in IPSAS 41 in practice.

## Staff Analysis



**No public sector specific reasons** presented to warrant different accounting treatments.



**Additional non-authoritative guidance to:**

- Clarify application by analogy;
- Emphasize Board's thinking; and
- Elaborate on why consistency in principle is appropriate and necessary from PFM perspective.

# Subsequent Measurement for Non-Contractual Receivables

## Recommendation

Staff recommend that the IPSASB:

- a) Retain (but relocate) the accounting principles proposed in the EDs, as they are appropriate; and
- b) Add non-authoritative guidance (as proposed in paragraph 7) to help entities apply the guidance.

Does the IPSASB disagree with this recommendation?

# Disclosure Requirements for Revenue Transactions

## ED Proposals

### ED 70

- *IFRS 15 disclosures*

### ED 71

- *IPSAS 23 disclosures*
- *IFRS 15 disclosures (for consistency)*

## ED Responses

- ✓ Majority of respondents fully or partially agreed
- ✎ Some requested:
  - Less disclosures
  - More disclosures
  - Revisions of existing disclosures

## Framing the Analysis

- **Impact** of IPSASB decisions to date
- Key **purpose** of disclosures
- **Principle-based** approach
- Be **objective** in considering requests to remove or add disclosures

# Disclosure Requirements for Revenue Transactions

Disclosure requirements*	Original Source(s)	Retain?
For <b>all</b> revenues (e.g., objective, level of detail/aggregation, major classes, policies, etc.)	<div data-bbox="1345 448 1589 545">IPSAS 23</div> <div data-bbox="1600 448 1849 545">IFRS 15</div>	
For revenue <b>without</b> BA (related to the nature, and risks of these revenues)	<div data-bbox="1345 625 1589 722">IPSAS 23</div>	
For revenue <b>with</b> BA (related to the nature, and risks of these revenues)	<div data-bbox="1600 773 1849 871">IFRS 15</div>	

\* Additional detail in Appendix 1

# Disclosure Requirements for Revenue Transactions

## Recommendation

Staff recommend the IPSASB agree to:

- a) Revise the presentation and order of disclosure guidance, as presented in paragraph 8 and Appendix 1, to better distinguish which disclosure guidance applies to which specific types of revenue transactions; and
- b) Retain existing disclosure requirements, with changes proposed in paragraph 12.

Does the IPSASB disagree with this recommendation?

# Accounting for Revenue from Capital Transfers

## Recommendation

- Staff recommend:
  - Clarifying that the accounting principles for revenue arising from binding arrangements can be applied to capital transfers; and
  - Add implementation guidance or illustrative examples on how the principles apply
- Application of proposed principles to capital transfers would mean:
  - Entity need to identify compliance obligations in the binding arrangement (Step B) and determine if the acquisition or construction of a non-financial asset is a separate compliance obligation;
  - Allocate transaction consideration to individual compliance obligations (Step E);
  - Defer revenue upon receipt if compliance obligations have not been satisfied, and recognize revenue as or when the compliance obligations are satisfied (Step C)

Does the IPSASB agree with this recommendation?

# Accounting for Revenue from Capital Transfers

## Example 1: Entire Transfer Relates to Construction of Asset

- BA specifies entity gets CU22 million to construct a building of unspecified use
- Entity determined there is only one compliance obligation: construction of the building

### Upon Receipt of Transfer

DR Cash CU22M

CR Deferred Revenue CU22M

### As Building is Constructed

DR Deferred Revenue X  
(based on construction progress)

CR Revenue X  
(based on construction progress)

# Accounting for Revenue from Capital Transfers

## Example 2: Transfer Relates to Construction and Operation of Asset

- BA now specifies:
  - In addition to CU22 million for construction, Entity A receives CU8 million for operating the building as a library for 10 years; and
  - Entity A has to pay a penalty of CU8 million if it stops operating building as a library in the 10-year period
- Entity determined there are two compliance obligations and allocated:
  - CU22 million to construction of the building
  - CU8 million to operating it as a library for 10 years once construction finishes

### Construction of Building

Same as Example 1

### Operation of Library

Recognize as library is operated on a systematic basis

Likely straight-line if no specific way to track operation of asset

### Accounting for Penalty

**No accounting**  
(Not a present obligation until binding arrangement is breached)

# Accounting for Revenue from Capital Transfers

## Example 3: Capital Transfer with Specifications on Type of Asset Built

- Similar facts as Example 1 except:
  - BA specifies that building is a hospital
  - Penalty of CU22 million payable if entity stops operating hospital within 30 years
- Entity determined there is only one compliance obligation for construction of the building because:
  - Specification that building is a hospital only informs the nature of the asset;
  - No specific terms on operation of the hospital; and
  - Entire CU22 million is consistent with consideration expected to be entitled for construction of the building

Construction of Building

**Same as Example 1**

Accounting for Penalty

**No accounting**  
(Not a present obligation until BA is breached)

**IPSASB**

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