

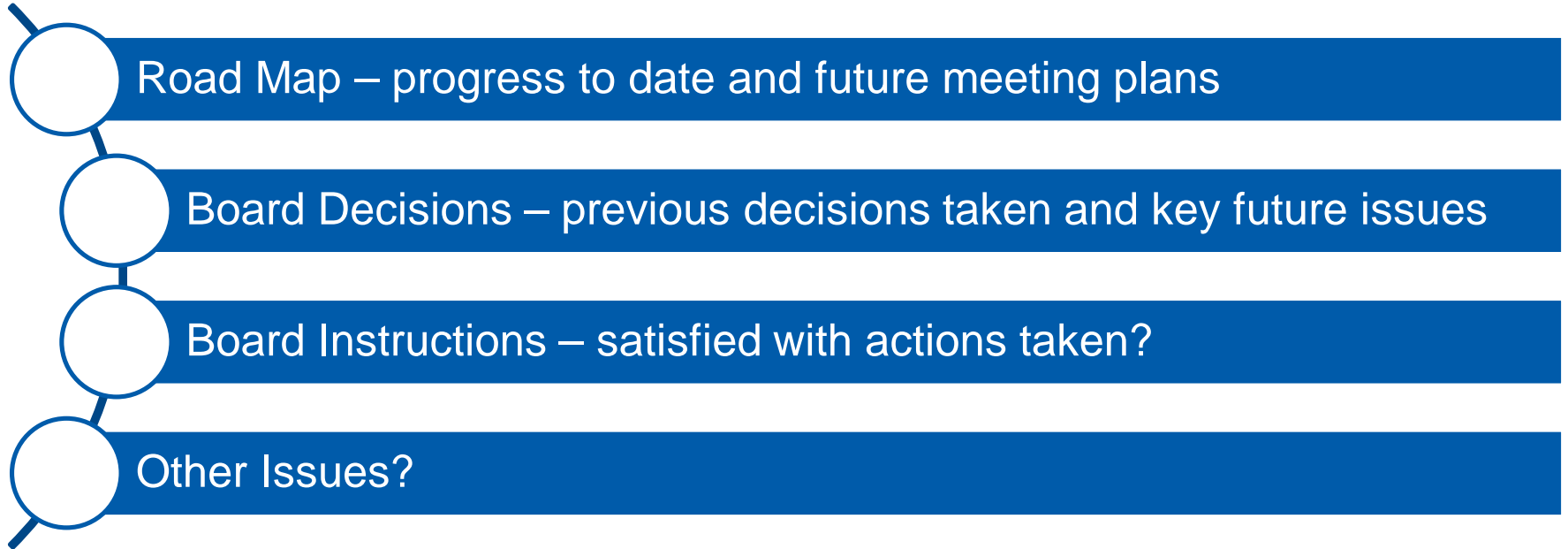


Agenda Item 8:
ED 71, *Revenue without Performance*
Obligations

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IPSASB Meeting
Lisbon, Portugal
September 24–27, 2019

Project management: Stock take



Session Outline

Topic	Agenda Item
[draft] ED 71, <i>Revenue without Performance Obligations</i>	Agenda Item 8.2.1
Impact of Past Event on Revenue Recognition	Agenda Item 8.2.2
Outflow of Resources	Agenda Item 8.2.3
Grants subject to Annual Appropriations	Agenda Item 8.2.4
Capital Grants	Agenda Item 8.2.5
Non-contractual Receivables – Initial Measurement	Agenda Item 8.2.6
Non-contractual Receivables – Subsequent Measurement	Agenda Item 8.2.7

[draft] ED 71, Revenue without Performance Obligations

Agenda Item 8.2.1

[Draft] ED provided

- IPSAS 23 used as a base – shaded text
- Amended text in markup
- New text in markup
- Placeholders to indicate location of new text

Definitions

Any other issues?

Impact of Past Event on Revenue Recognition

Agenda Item 8.2.2

Liability – A present obligation of the entity for an outflow of resources that results from a past event

When does the past event occur? – two options:

- Option 1 – Breach of the binding arrangement
- Option 2 – Binding arrangement

Impact of Past Event on Revenue Recognition

Agenda Item 8.2.2 cont.

Option 1 – Breach of the arrangement:

- Asset and revenue recognized when resources are receivable
- When (if) breached, liability and expense recognized

Rationale

- Entity can avoid an outflow of resources by fulfilling the requirements of the arrangement (only valid if outflow of resources are limited to reimbursements to transfer provider (see AI 8.2.3))

Impact of Past Event on Revenue Recognition

Agenda Item 8.2.2 cont.

Option 2 – Binding arrangement

- Asset and liability recognized when resources are receivable
- Revenue recognize and liability diminished as either:
 - Enforceable activities are completed; or
 - Eligible expenditure is incurred.

Rationale

- CF paragraph 5.17 ... where an arrangement has a legal form and is binding, such as a contract, the past event may be straightforward to identify
- Consistent with the view that outflow of resources is either;
 - Using resources as required in the arrangement or
 - Reimbursement to transfer provider in the event of a breach

Impact of Past Event on Revenue Recognition

Agenda Item 8.2.2 cont.

Staff view:

- Past event occurs when the parties enter into the binding arrangement.

Decision required:

- Does the IPSASB agree with the staff view?

Outflow of Resources (Agenda Item 8.2.3)

Liability – A present obligation for the entity for an outflow of resources that results from a past event.

What constitutes and outflow of resources? 2 Options

- Option 1 – Repayment of resources in the event of a breach
- Option 2 – Using the resources to fulfill the requirements in the arrangement, or repayment of resources

Outflow of Resources (Agenda Item 8.2.3) cont.

Option 1 – Repayment of resources if a breach

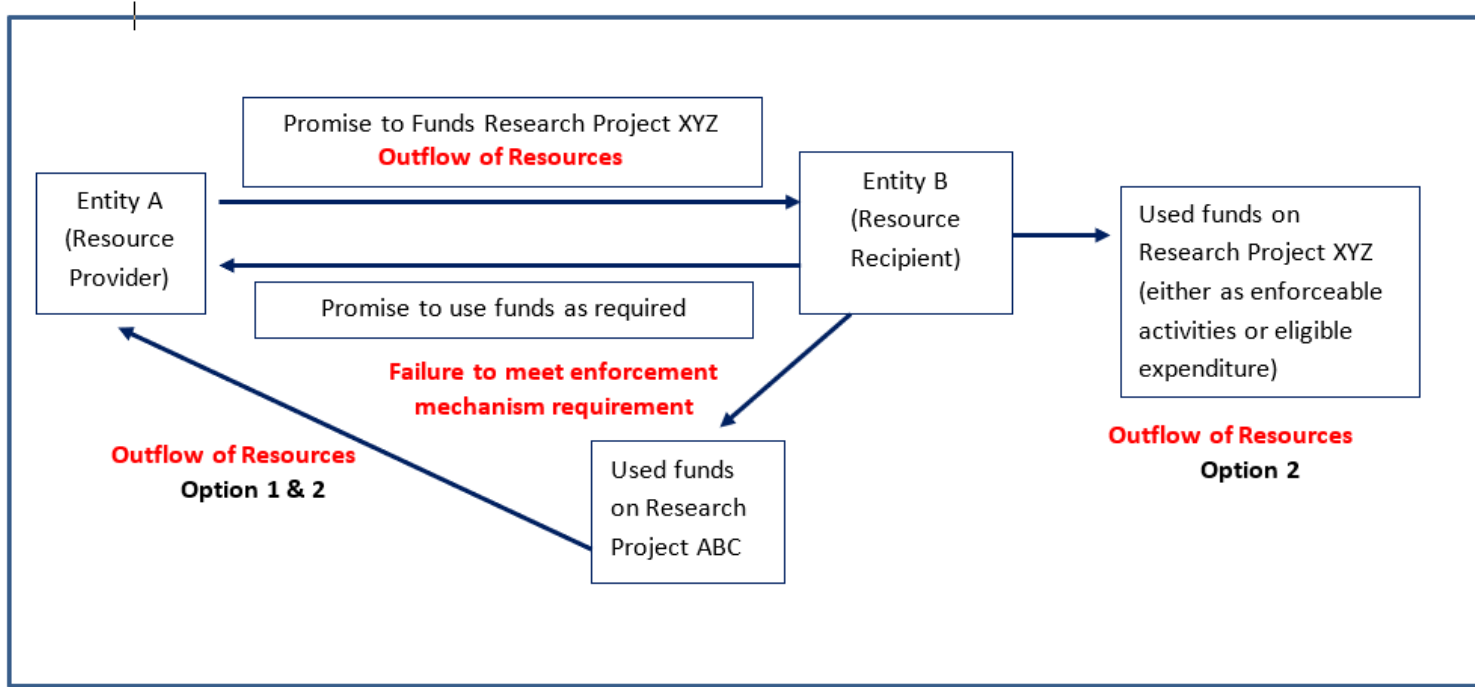
- Asset and revenue recognized when resources are receivable
- No liability when entering into the binding arrangement
- When (if) breached, liability and expense recognized

Outflow of Resources (Agenda Item 8.2.3) cont.

Option 2 – Using resources to fulfil requirements of the binding arrangement or a repayment in the event of a breach

- Asset and liability recognized when resources are receivable
- Revenue recognize and liability diminished as either:
 - Enforceable activities are completed; or
 - Eligible expenditure is incurred.

Outflow of Resources (Agenda Item 8.2.3) cont.



Outflow of Resources (Agenda Item 8.2.3) cont.

Staff view:

- Outflow of resources are either:
 - Using the resources to:
 - Complete enforceable activities; or
 - Incur eligible expenditure; or
 - Repayment in the event of a breach

Decision required:

- Does the IPSASB agree with the staff view?

Appropriations (Agenda Item 8.2.4)

Currently no guidance in IPSAS 23 on how to account for a grant that is subject to appropriations.

2 approaches

- Substance over form – determined by history of transfer provider.
 - If never defaulted - recognize full grant when entered into binding arrangement
 - If defaulted or no history – only recognize amount appropriated
- Control – assess whether transfer recipient has control and only recognize that amount
- If not appropriated, does the transfer recipient have control?

Appropriations (Agenda Item 8.2.4) cont.

Staff view:

- Assets from grants subject to annual appropriations should be recognized using a control approach

Decision required:

- Does the IPSASB agree with the staff view?

Capital Grants (Agenda Item 8.2.5)

What is a Capital Grant?

“A transaction in which a transfer provider provides an asset or cash with a requirement that the transfer recipient acquire or construct an asset, without receiving from the transfer recipient any good, service or asset in return.”



Capital Grants (Agenda Item 8.2.5) cont.

No transfer of goods or services – therefore outside the scope of ED 70, *Revenue with Performance Obligations*

Little guidance in IPSAS 23

Proposals for accounting for capital grants – 2 approaches (depends on decisions re: past event & outflow of resources.)

Capital Grants (Agenda Item 8.2.5) cont.

Approach 1 – Recognize revenue in the same manner for other grants (if Board agrees with staff views in Agenda Items 8.2.2 & 8.2.3)

- Asset and Liability recognized when resources are receivable
- Revenue recognized as enforceable activities are completed or as eligible expenditure is incurred, or over construction period

Capital Grants (Agenda Item 8.2.5) cont.

Approach 2 – Recognize by analogy to ED 70 *Revenue with Performance Obligations* – exception rule

- Asset and Liability recognized when resources are receivable
- Revenue is recognised over construction period or when any milestones in the arrangement are met

Capital Grants (Agenda Item 8.2.5) cont.

Staff view:

- Recognize the same as other grants (If IPSASB agrees with staff recommendations in Agenda Items 8.2.2 & 8.2.3)

Decision required:

- Does the IPSASB agree with the staff view?

Initial Measurement of Non-contractual Receivables (Agenda Item 8.2.6)

Currently measured at fair value

Preliminary view in CP, *Accounting for Revenue and Non-Exchange Expenses* – Face value (legislated amount) with any amount expected uncollectable impaired – good support from respondents

March 2018 IPSASB meeting – Board decided initial measurement should be related to revenue recognition

Current IPSAS 23 - Revenue is recognized at fair value

Initial Measurement of Non-contractual Receivables (Agenda Item 8.2.6) cont.

Staff view:

- Measure at fair value (consistent with ED 70 and IPSAS 41)

Decision required:

- Does the IPSASB agree with the staff view?

Subsequent Measurement of Non-contractual Receivables (Agenda Item 8.2.7)

Currently no guidance in IPSAS 23

Preliminary View in CP – Fair value approach – not well supported

No consistent view for appropriate approach

Other options

- Amortized cost approach
- Cost approach

IPSAS 41 – contractual receivables generally measured at amortized cost

Subsequent Measurement of Non-contractual Receivables (Agenda Item 8.2.7) cont.

Staff view:

- Amortized cost with wording in ED 71 cross-referenced to IPSAS 41

Decision required:

- Does the IPSASB agree with the staff view?



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