01 November 2020

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO EXPOSURE DRAFT 70 – REVENUE WITH PERFORMANCE OBLIGATIONS

Introduction

The Botswana Institute of Chartered Accountants ("BICA") is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IPSASB's Exposure Draft 70 – Revenue With Performance Obligations. We provide our comments to each specific question as per the exposure draft.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

Signed electronically

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RESPONSES TO SPECIFIC QUESTIONS

1.0. Specific Matter for Comment 1

This Exposure Draft is based on IFRS 15, Revenue from Contracts with Customers. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.

Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

Points to consider in making the decision

The EDs scope is wide in respect to revenue arising from binding arrangements with a purchaser that includes performance obligations and its scope limitation only extents to the point where another standard exists to which related issues can be accounted for or the binding arrangement would not constitute the transfer of goods or services.

However, reading paragraphs 3(g), 3(h) and 3(i) the absence of clarity on changes in the value of non-current assets would appear to imply that they may be considered as within the scope of this ED.

The definition appears wide enough to cover the parameters that may exist within an arrangement that may be deemed to lead to revenue generation.

Recommendations

We agree that the scope of the ED and the definition of binding arrangements is clear except for the following

a) Add another paragraph 3(k) Changes in the value of non-current assets as the reference to IPSAS 16, IPSAS 17 and IPSAS 31 is to gains from the sale.

2.0. Specific Matter for Comment 2

This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations, and [draft] IPSAS [X] (ED 72), Transfer Expenses, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the 4 IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22.

Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”? If not, why not?

<u>Points to consider in making the decision</u>

Terms are defined in the standards to give them meaning or clarify their usage so that implementation of the standards do not create ambiguity resulting in different interpretations by the users.

Since IPSASB's decision not to include any definitions for transfer revenue or transfer revenue with performance obligations is based on two factors namely

1. Such definitions would not add any value but would rather create more confusion or an extra layer of complexity
2. The determinant to revenue categorization is based on how it is generated i.e. with performance obligations or without performance obligations making the transfer concept a component of the revenue categorization.

Would it therefore be wise to consider keeping these definitions for transfer revenue and transfer revenue with performance obligations for purposes of using them as a way to disaggregate revenue as suggested in AG139 rather than for its categorization?

Recommendations

We do agree with the decision of the IPSASB not to provide the definitions of "transfer revenue" or "transfer revenue with performance obligations".

3.0. Specific Matter for Comment 3

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70.

Do you agree with the application guidance? If not, why not?

<u>Points to consider in making the decision</u>

In deciding to add application guidance AG69 and AG70, IPSASB was guided by the conclusion arrived at under the Basis of Conclusion (BC) 59 and 60. The purpose of an AG is to enable the users of the standard to appreciate how to deal with issues that may be contentious. If it were not for this purpose, the inclusion of the AG would merely serve as a repetition since BC59 and BC60 clearly explain the rationale.

Recommendations

On the basis of the foregoing we therefore are in agreement with the IPSASBs decision to include the AG.

4.0. Specific Matter for Comment 4

The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.

Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?

Points to consider in making the decision

To determine whether to agree or not to agree with the IPSASBs decision a review of the disclosure requirements in IPSAS 9 Revenue from Exchange Transactions and IPSAS 11 Construction contracts need to be compared with those in IFRS 15.

Key disclosure requirements under IPSAS 9 are

(a) The accounting policies adopted for revenue recognition and methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) The amount of each significant category of revenue recognized during the period, including revenue arising from: (i) The rendering of services; (ii) The sale of goods; (iii) Interest; (iv) Royalties; and (v) Dividends or similar distributions; and

(c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Key disclosure requirements under IPSAS 11 are

1. For the period
   (a) The amount of contract revenue recognized as revenue,
   (b) The methods used to determine the contract revenue recognized, and
   (c) The methods used to determine the stage of completion of contracts in progress.
2. For each contract in progress at the reporting date:
   (a) The aggregate amount of costs incurred and recognized surpluses (less recognized deficits) to date;
   (b) The amount of advances received; and
   (c) The amount of retentions
3. An entity shall present:
   (a) The gross amount due from customers for contract work as an asset; i.e the net of
      i. Costs incurred plus recognized surpluses; less

ii. The sum of recognized deficits and progress billings for all contracts in progress for which costs incurred plus recognized surpluses to be recovered by way of contract revenue (less recognized deficits) exceed progress billings.

(b) The gross amount due to customers for contract work as a liability. i.e the net of

i. Costs incurred plus recognized surpluses; less

ii. The sum of recognized deficits and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognized surpluses to be recovered by way of contract revenue (less recognized deficits).

Key disclosure requirements under IFRS 15 are

An entity shall disclose qualitative and quantitative information about all of the following:

a) its contracts with customers

b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts; and

c) any assets recognised from the costs to obtain or fulfil a contract with a customer.

While key disclosure requirements in IFRS 15 are quite summarized, the detailed explanations provided in paragraphs 113 to 128 of the standard clearly calls for extensive disclosures than were provided for in IPSAS 9 and IPSAS 11. This therefore would ensure that users have a better understanding of the financial performance and position of the entity.

Recommendations

The objective stated in the Conceptual Framework for disclosing information in the financial statements is to provide financial information that is useful for accountability and decision-making purposes by users of GPFRs. For ED 70, disclosure requirements set in IFRS 15 should be customised to avoid unnecessary difficulty in applying the [draft] standard. Disclosure elements which require allocation of transaction price to remaining performance obligation are too detailed and may be cumbersome for public sector entities and should be considered for exclusion.

5.0. Specific Matter for Comment 5

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.

Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?

Points to consider in making the decision

The objective of Financial statements is to provide financial information that is useful for accountability and decision-making purposes by users of GPFRs. Non-disclosure of information that would otherwise have made a user of the financial statements to make a different decision would mean that such financial statement do not meet the qualitative criteria of faithful representation in the Conceptual Framework.

The intention of Paragraph 120 is to enhance user understandability of financial statements and the rationale that led to the entity satisfying a performance obligation regardless of a purchaser's ability or intention to pay for the goods or services

Recommendation

In view of the foregoing, we do agree with the addition of the disclosure requirement in paragraph 120 as it will provide users with invaluable information on the reasons why the entity entered into an agreement with the purchaser even when it was clear that the purchaser either had no intention or ability to pay for the goods or services.