



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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CASLB/G/10

January 15, 2018

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Consultation Paper on 'Accounting for Revenue and Non-Exchange Expenses'

We are pleased to provide comments on the Consultation Paper on '*Accounting for Revenue and Non-Exchange Expenses*' issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. Rajesh Sharma)

Central Council Member & Vice-Chairman
Committee on Accounting Standards for Local Bodies
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Comments on the Consultation Paper issued by IPSASB on 'Accounting for Revenue and Non-Exchange Expenses'

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

ICAI's View:

Yes, we agree with the IPSASB's preliminary view. An IPSAS based on IFRS 15 would be more appropriate for 'Category C' transactions (Exchange Transactions) in place of IPSAS 9 and IPSAS 11.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

ICAI's View:

Yes, we agree as the transactions categorised as 'A' do not have any performance obligation. A separate Standard should be there to deal with such transactions. As



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few issues have been identified in the existing IPSAS 23, updating the same appears logical for prescribing the accounting treatment for 'Category A' transactions.

Specific Matter for Comment 1

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

ICAI's View:

In India, Government Accounting is on cash basis. Only a few pilot studies have been conducted in Government Departments for conversion from cash basis of accounting to accrual basis of accounting and some Urban Local Bodies (Local Governments) have shifted from cash to accrual basis of accounting which are also at a very nascent stage. For Government Accounting, any accrual based Accounting Standards/ IPSASs are yet to be implemented in India. Accordingly, in the absence of practical implementation of IPSASs, the areas that are further required to be dealt in IPSAS 23 have not been identified.

However, we seek one clarification whether "Deferred collection of taxes" i.e. collection of taxes which is deferred beyond the current period, would be different from the "Taxes with long collection period". In case both terminologies have different connotations, we suggest to cover the accounting in respect of "Deferred collection of taxes" also in the IPSAS 23.



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Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

ICAI's View:

We do not agree with the view that 'Category B' transactions should be accounted for using the Public Sector Performance Obligation Approach due to the following reasons:

- Performance obligation approach does not seem to be appropriate for 'Category B' transactions, as the transactions with only time requirement do not have any performance obligation.
- 'Category B' transactions are non-exchange by nature. Distinction of exchange and non-exchange assumes great importance in Government Sector and any other classification will make it complicated and confusing to understand.
- As 'Category B' transactions are non-exchange transactions, the accounting for the same can be dealt with in updated IPSAS 23.

Specific Matter for Comment 2

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);
- Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and
- Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.



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ICAI's View:

We do not recommend PSPOA for 'Category B' transactions. (please refer our reply to PV 3 (above) and SMC 3 (below))

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) - Require enhanced display/disclosure;
- (b) Option (c) - Classify time requirements as a condition;
- (c) Option (d) - Classify transfers with time requirements as other obligations;
- or
- (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

ICAI's View:

In our view, option (b) '*Require enhanced display/ disclosure for transactions with time requirements*' of Approach 1 - *The Exchange/ Non-Exchange Approach & Update IPSAS 23* seems appropriate to apply for 'Category B' revenue transactions. Though this option will not lead to any change in existing accounting of such transactions but would provide information indicating the time-frame over which the resource provider intends the transfer to be used, through notes disclosures and/or a disaggregation of revenue in the Statement of Financial Performance which will meet information requirements of users.

Updating the IPSAS 23 with the above option would also not lead to any contradictions with the Conceptual Framework of IPSAS Board.

Specific Matter for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No



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Please explain your reasons.

ICAI's View:

Yes, we agree that the option (b) – '*Require enhanced display/ disclosure*' as identified by us as the appropriate option for updating IPSAS 23 should be used in combination with option (a) – '*Provide additional guidance on making the exchange/ non-exchange distinction*'.

Using option (b) alone for updating the IPSAS 23 would not serve the purpose completely as it may resolve the issue with regard to 'Category B' transactions but will not resolve the issues with regard to exchange and non-exchange determination.

Distinction of exchange and non-exchange transactions is very important in Government Sector and additional guidance may be required with regard to what "directly" and "approximately equal value" currently used in the definitions of exchange and non-exchange transactions, which are difficult to apply for determination of exchange and non-exchange transactions, as identified in this CP.

Accordingly, option (b) would need to be exercised along with the option (a).

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

ICAI's View:

We agree that capital grants have not been discussed explicitly in the existing IPSAS 23 and the same should be discussed explicitly.

Specific Matter for Comment 5

(a) Has the IPSASB identified the main issues with capital grants?

If you think that there are other issues with capital grants, please identify them



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(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

ICAI's View:

Yes, we agree with the issues as identified in this Consultation Paper with regard to Capital Grants.

Specific Matter for Comment 6

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.

ICAI's View:

IPSAS Board may consider to adopt option (b) (from above mentioned options) modify the requirements to require services in kind that meet the definition of an asset to be recognised in the financial statements provided that the same can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information.

However, the IPSASB may consider prescribing an alternative to record services-in-kind at nominal value (symbolic value) of Currency Unit 1/- (with a detailed disclosure for the services in the notes to financial statements).

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on



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the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

ICAI's View:

We agree with the IPSASB's preliminary view. Non-Exchange transactions related to universally accessible services and collective services that impose no performance obligations on the resource recipient should be accounted for under the *Extended Obligating Event Approach* (reverse IPSAS 23 approach).

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

ICAI's View:

We agree with the views of IPSASB that the resources applied for non-exchange transactions related to universally accessible services and collective services should be expensed as services are delivered as there may be no obligating event in such cases.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted

for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.



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ICAI's View:

The Consultation Paper in the paragraph 6.42 provides that the approach in a Non-Exchange Expenses Standard should be mirror to the approach adopted for equivalent revenue transactions. The grants, contributions and other transfers with performance obligation or stipulations would be classified as 'Category B' transactions. Therefore, we suggest that the grants, contributions and other transfers that contain either performance obligations or stipulations should be accounted for using the Extended Obligating Event Approach (reverse updated IPSAS 23 approach) as we are in favour of updating IPSAS 23 (see our reply to preliminary view 2 & 3) instead of adopting the PSPOA for 'Category B' transactions.

It may also be noted that the result for the recognition of expenses in case of "Multiyear Research Grant" (Category B transaction), on page no. 85-87 of Appendix B on "illustrative examples", is same under both approaches as suggested in this CP.

Preliminary view 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

ICAI's View:

We agree with the IPSASB's preliminary view to measure non-contractual receivables at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as impairment at the initial recognition.

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.



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ICAI's View:

We do not agree with the subsequent measurement of non-contractual receivables using fair value approach because of the issues such as selection of market rate in the absence of any market for many of the transactions arising from non-contractual receivables and problems in identifying any similar financial instruments with the same terms and risk profile, etc.

Specific Matter for Comment 7

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach:
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

ICAI's View:

We suggest the cost of fulfillment approach for subsequent measurement of non-contractual payables as this approach is in accordance with the IPSASB's Conceptual Framework and relatively straightforward to apply as mentioned in this CP.

Alternatively, IPSAS 19 requirements may be used for subsequent measurement of non-contractual payables as it would also be relatively straightforward to apply.

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