

PROJECT HISTORY

Contact: Edwin Ng (EdwinNg@ipsasb.org)

Joanna Spencer (JoannaSpencer@ipsasb.org)

Revenue – IFRS 15 Alignment – ED 70, Revenue with Performance Obligations

Staff presented a number of issues papers, as well as a mark-up of ED 70, *Revenue with Performance Obligations* (ED 70), to the IPSASB.

Objective

The IPSASB approved the text of the objective section of ED 70, including a paragraph outlining the 5-step revenue recognition model in the ED. The IPSASB also instructed staff to move the paragraph on the 5-step model out of the Objective section of the standard and to place it prior to the section on Recognition.

Identifying the Binding Arrangement with a Purchase – Consequences of Paragraph 8(e)

The IPSASB agreed to retain paragraph 8(e), which requires the collection of consideration from a binding arrangement to be probable in order to apply the 5-step revenue recognition model to the transaction, and to require disclosures of transactions that an entity is compelled to enter by legislation which do not meet paragraph 8(e). In addition, as a result of the decision to retain paragraph 8(e), the IPSASB agreed to reconsider whether changes are required in paragraphs 14 and 15 of the ED, which addresses the accounting for transactions which do not satisfy all of the criteria listed in paragraph 8.

In light of these decisions, the staff will:

- Develop disclosures for transactions that an entity is compelled to enter by legislation where collection of consideration is not probable and present the draft disclosure in the September 2019 meeting;
- Consider whether changes are required to paragraphs 14 and 15 and/or whether application guidance is needed as a result of the decision to retain paragraph 8(e); and
- Explain, in the Basis for conclusions, the IPSASB's decision to retain paragraph 8(e) with the potential requirement for additional disclosures.

Binding Arrangement Asset and Binding Arrangement Liability

The IPSASB agreed to retain the terms and the definitions of “Binding Arrangement Asset,” and “Binding Arrangement Liability.”

Terminology Additions and Changes

The IPSASB discussed a number of potential terminology changes and additions and decided as follows:

- Include a definition of “Third-party beneficiary” and add “Third-party beneficiary” to “Purchaser” when referring to the transfer of a good or service. The IPSASB noted that this definition will need to be consistent between ED 70, ED 71, *Revenue without Performance Obligations* (ED 71), and ED 72, *Grants and Transfer: Expense* (ED 72);
- Not define “counterparty” as it is a term commonly used in IPSAS literature;

- Retain the term and definition of “Transaction price”;
- Retain the term “Distinct”;
- Replace the terms “Stand-alone selling price”, “sell”, and “sold” with “stand-alone price”, “provide”, and “provided”, respectively.

To address the above decisions, the staff will:

- Develop the definition of “Third-party beneficiary” and ensure it is consistent in ED 70, ED 71, and ED 72, and present it at the September 2019 IPSASB meeting;
- Ensure consistent and appropriate use of the term “Third-party beneficiary” within ED 70;
- Prepare a Basis for Conclusion paragraph explaining the IPSASB’s decision to retain the term “Transaction price”;
- Consider the need for Application Guidance, an additional example, and Basis for Conclusion paragraphs on “Stand-alone price,” as well as the replacement of the terms “sell” and “sold” with “provide” and “provided” in the public sector context, including where the “stand-alone price” will be based on exit or entry value.
- Review the ED for consistent use of the new terms.

Illustrative Examples for [draft] ED 70, Revenue with Performance Obligations

The IPSASB generally agreed with the staff’s proposals to retain or remove the examples from IFRS 15, *Revenue from Contracts with Customers*, but requested the staff to reconsider a number of areas as noted below. In addition, the IPSASB agreed with the staff’s proposal to include additional examples on scope, hybrid transactions which fall within the scope of both ED 70 and ED 71, enforceability by mechanisms other than legal means, and three-party arrangements.

Based on the discussions, the staff will:

- Reconsider whether to modify example 7;
- Retain example 63 and solicit input from Board members on actual examples;
- Consider if the Illustrative Examples from IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*, should be added to ED 70;
- Consider including a Basis for Conclusions paragraph explaining that the Illustrative Examples are not authoritative, and that core commercial transactions are illustrated in IFRS 15;
- Develop Illustrative Examples to be presented to the IPSASB in December 2019.

[draft] Exposure Draft 70, Revenue with Performance Obligations

The IPSASB tentatively approved the core text and authoritative guidance of ED 70 at the March 2019 meeting. At this meeting, the IPSASB instructed the staff to include a Basis for Conclusion paragraph explaining the approach the IPSASB has taken in determining which examples should be brought forward from IFRS 15 and which additional examples should be included.

Revenue – Updated IPSAS 23 – ED 71, Revenue without Performance Obligations

Staff presented an issues paper on Revenue Options for [draft] Exposure Draft (ED) 71, *Revenue without Performance Obligations* which provides two approaches for revenue recognition – immediate recognition

and a deferral approach. Within the deferral approach there were four proposals for timing of revenue recognition.

The IPSASB agreed that:

- Transactions that are not enforceable because there is no binding arrangement will result in revenue being recognized when receivable (this confirms the December 2018 decision).

The IPSASB **instructed** staff to:

- Develop a paper examining the differences and interaction between a present obligation and a performance obligation (as defined in [draft] ED 70). The paper should also consider the accounting consequences of a breach of 'terms' associated with the transaction, as well as presenting different presentation models for various accounting approaches. Staff are also to consider the terminology used when developing this paper.
- Draft text for enforceable transactions with 'terms' on the basis that revenue is recognized when receivable unless there is a liability at the inception of the arrangement. If a liability arises later, this is a separate event.
- Consider how to account for hypothecated taxes;
- Update an issues paper on Capital Grants to consider the implications of the present obligation/performance obligation paper.