

Consultation Paper: Accounting for Revenue and Non-Exchange Expenses

This summary provides an overview of the IPSASB'S [Consultation Paper, Accounting for Revenue and Non-Exchange Expenses](#).

Project objectives:

The objective of this project is to:

- Develop one or more IPSAS to address the accounting requirements for all revenue transactions (exchange and non-exchange); and
- Develop one or more IPSAS to address the accounting requirements for non-exchange expenses, excluding social benefits.

The project stage:

The IPSASB issued this Consultation Paper in August 2017.

Next steps:

The IPSASB seeks feedback to guide it in developing approaches for the recognition and measurement of revenue transactions and non-exchange transactions (excluding social benefits).

Comment deadline:

The Consultation Paper is open for public comment through January 15, 2018.

How to respond:

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link on the Consultation Paper page. Please submit comments in both a PDF and Word file. All comments will be a matter of public record and will be posted on the website.

Why is the IPSASB undertaking this project?

The IPSASB initiated this project because:

- Preparers experience problems in determining whether revenue transactions are exchange or non-exchange
- A gap in IPSAS literature for non-exchange expenses can lead to ambiguity and inconsistency
- There are application issues with IPSAS 23
- The issuance of IFRS 15, *Revenue from Contracts with Customers*, by the IASB provides a new approach for revenue recognition

The primary objective of most public sector entities is to deliver services to the public. For decision-making and accountability purposes, users need information on the financial position, financial performance, and cash flows of an entity as well as information on the:

- Provision of services to constituents;
- Resources available for future use;
- Burden on future tax-payers for current services; and
- Changes in the entity's ability to provide services compared with the previous period.

Funding sources for public sector entities include taxation, transfers from other public sector entities and fees and charges.

While there are currently several IPSAS that address accounting for revenue and expenses, gaps in the literature and difficulties with applying the current requirements have been identified. The IPSASB aims to improve its standards and to develop requirements and guidance on topics not currently addressed by IPSAS.

The purpose of this CP is to seek feedback from constituents on a strategic direction for possible improvements to accounting for revenue and for potential requirements and guidance for accounting for non-exchange expenses.

In this CP the IPSASB asks for constituents' views on:

- Approaches for revenue recognition;
- Proposals for updating IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* for transactions with time requirements;
- Approaches for the recognition of non-exchange expenses (excluding social benefits); and
- Measurement of non-contractual receivables and payables.

Categorization of Revenue Transactions

The IPSASB has categorized revenue transactions into three broad categories, depending on whether the transaction contains performance obligations or stipulations.

Category A – Transactions with no performance obligations or stipulations

Category B – Transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15

Category C – Transactions that meet the definitions and scope of IFRS 15

Categorization of Revenue Transactions			
Current	Non-Exchange		Exchange
CP Revenue	Category A	Category B*	Category C
Characteristic	No performance obligations or stipulations	Enforceable agreements, with performance obligations or stipulations to use or consume resources in a particular way; and/or other agreements requiring resources to be used over a specified period of time	Enforceable agreements, with performance obligations to transfer goods or services to customers on commercial terms
Examples	Taxes, transfers	Funding to deliver a specified number of vaccinations to the public	Sale of goods or services on commercial terms

* Whether Category B transactions are considered to be exchange or non-exchange can differ depending on how the characteristics of the transaction are interpreted.

The CP considers two approaches for Category B revenue transactions:

- Approach 1 – Update IPSAS 23 (there are five options in this approach); and
- Approach 2 – Public Sector Performance Obligation Approach (based on IFRS 15)

Revenue Approach 1 – Exchange/Non-Exchange Approach – Update IPSAS 23

Application issues have been identified with IPSAS 23 including:

- Difficulty in making the exchange/non-exchange determination
- Accounting for transfers with time requirements – currently where time requirements are the only stipulation, resources are recognized by the recipient when receivable. Some argue that this does not provide the information that users need about the period over which the resource provider intends the resources to be used.

Potential and options for updating IPSAS 23

To address the exchange/non-exchange determination issue

Option 1(a) – Provide additional guidance on making the exchange/non-exchange determination

The difficulty in making the exchange/non-exchange determination is in assessing what the terms ‘directly’ and ‘approximately equal value’ in the definitions of exchange and non-exchange transactions mean. To address this issue the IPSASB would develop additional guidance.

To address transfers with time requirements the IPSASB has identified four options

Option 1(b) – Require enhanced display/disclosure for transactions with time requirements

This presentational option indicates the time-frame over which the resource provider intends the transfer to be used. This information is communicated through note disclosures and/or a disaggregation of revenue in the statement of financial performance.

Option 1(c) – Classify time requirements as a condition

This option classifies time requirements as a condition rather than a restriction.

Option 1(d) – Classify transfers with time requirements as other obligations

Under this option the resource recipient initially recognizes the transfer as an “other obligation” (as discussed in the IPSASB’s *Conceptual Framework*) and recognizes revenue as the transfer is used.

Option 1(e) – Recognize transfers with time requirements in net assets/equity and recycle through statement of financial performance

This option takes transfers with time requirements directly to net assets/equity and is recycled through revenue when used.

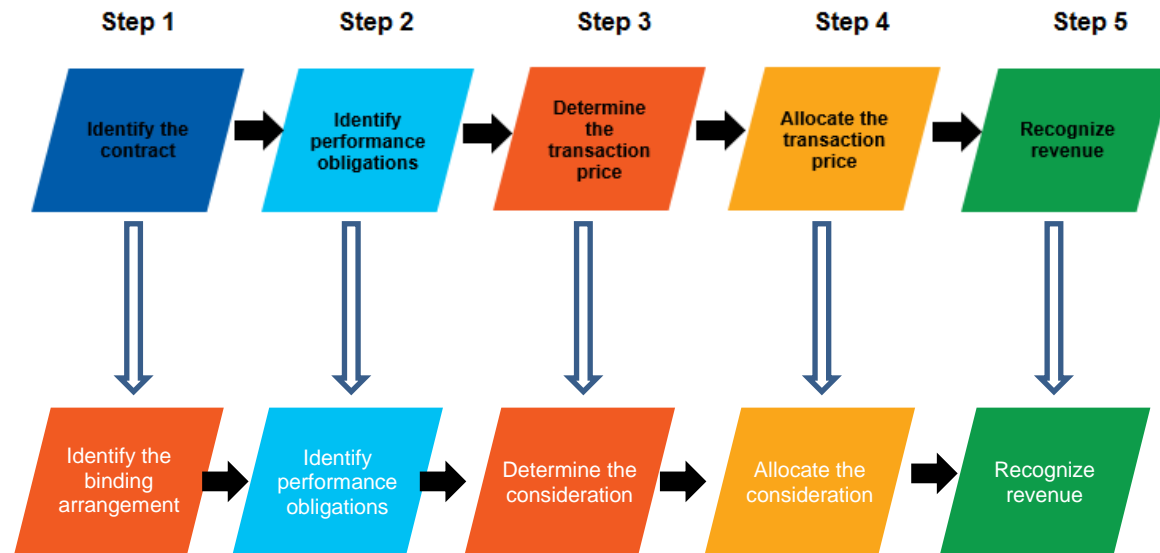
Revenue Approach 2 – Public Sector Performance Obligation Approach

For Category B transactions, the CP discusses an approach based on IFRS 15 adapted for public sector transactions.

Adaptations include:

- Expanding the concept of enforceability
- Recognizing revenue on the fulfillment of performance obligations rather than the transfer of promised goods and/or services

IFRS 15 five-steps



Other Current IPSAS 23 application issues

The CP also identifies two other IPSAS 23 application issues:

- Capital Grants
- Services in-kind

The CP does not suggest how accounting for capital grants or services in-kind can be amended but rather seeks feedback on the issues constituents have encountered with accounting for these types of transactions

Capital Grants

A major concern identified by the IPSASB is the pattern of revenue recognition for capital grants. Although IPSAS 23 applies to these resources, accounting for capital grants is not explicitly addressed. This lack of specific guidance can lead to revenue being recognized in various ways depending on whether the funding agreement includes restrictions and/or conditions. These include:

- When the transfer is receivable;
- During construction of the building (stage of completion); and
- When the building becomes operational.

The IPSASB is of the view that accounting for capital grants should be explicitly addressed within IPSAS.

Services in-kind

Currently, IPSAS 23 permits but does not require services in-kind to be recognized. Issues related to recognizing services in-kind are:

- Difficulty in obtaining a reliable measurement; and
- Entities may have insufficient control for the service in-kind to meet the asset definition.

The discretion permitted by IPSAS 23 may lead to reduced comparability between entities.

For some organizations, services in-kind can be material and some argue that if they are not recognized important information is not being communicated to users. Alternatively, some argue that the cost of providing the information is greater than the benefit to users.

The IPSASB has not expressed a view on accounting for services in-kind but is seeking constituent comments on alternative accounting approaches.

Non-Exchange Expenses – Two Approaches

There are currently no specific IPSAS addressing accounting for non-exchange expenses. To fill this gap in the literature, the CP considers two approaches:

- The Extended Obligating Event Approach
- Public Sector Performance Obligation Approach

The CP considers two approaches for accounting for non-exchange expenses (excluding social benefits). The types of non-exchange expenses that would be accounted for under these approaches are:

- Universally accessible services;
- Collective services; and
- Grants, contributions and other transfers.

Approach 1 – The Extended Obligating Event Approach

This approach uses the concept of an obligating event in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* to determine when a resource provider has a liability, and then applies a reverse IPSAS 23 approach to assess when an expense should be recognized.

Approach 2 – Public Sector Performance Obligation Approach

This approach is the counterpart to the approach of the same name for revenue transactions. The five-step approach is reconfigured from the perspective of the resource provider.



Measurement – Non-contractual receivables and non-contractual payables

The IPSASB has identified a gap in the literature for the measurement of non-contractual receivables and non-contractual payables. This CP explores approaches for:

- Non-contractual receivables:
 - Initial measurement;
 - Subsequent measurement
- Non-contractual payables;
 - Subsequent measurement

Non-contractual receivables – initial measurement

Currently IPSAS 23 requires non-contractual receivables to be measured at fair value when receivable. However, applying fair value measurement can be problematic particularly for taxes, fines and penalties. This CP discusses two approaches for measurement of non-contractual receivables at initial recognition:

- The best estimate of the discounted cash flows (with no identification of uncollectible amounts); and
- The face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment.

Non-contractual receivables – subsequent measurement

There is no IPSAS that addresses the subsequent measurement of non-contractual receivables. This has led to some jurisdictions developing their own policies. This CP considers three approaches for the subsequent measurement of non-contractual receivables:

- Fair Value Approach;
- Amortized Cost Approach; and
- Cost Approach

Non-contractual payables – subsequent measurement

There are no requirements in IPSAS specific to non-exchange expenses. In the absence of specific guidance some jurisdictions have applied the requirements in IPSAS 19 to non-contractual payables. This CP considers four approaches for the subsequent measurement of non-contractual payables:

- Cost of Fulfillment Approach;
- Amortized Cost Approach;
- Hybrid Approach (method depends on whether cash flows are certain in timing and amount); and
- IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requirements.

IPSASB Preliminary Views

To inform constituents of the IPSASB's views on the approaches identified the CP contains a number of Preliminary Views (PVs)

The IPSASB has expressed the following PVs:

Revenue Transactions

PV 1 – Category C transactions should be accounted for under an IPSAS converged with IFRS 15

PV 2 – Category A transactions should be accounted for under an updated IPSAS 23

PV 3 – Category B transactions should be accounted under a Public Sector Performance Obligation Approach

Capital Grants

PV 4 – Capital grants should be addressed explicitly within IPSAS.

Non-exchange Expense Transactions

PV 5 – Non-exchange transactions related to universally accessible services and collective services have no performance obligations. Therefore, these non-exchange transactions should be accounted for under the Extended Obligating Event Approach

PV 6 – 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.

PV 7 – Grants, contributions and other transfers that contain performance obligations or stipulations should be accounted for under the Public Sector Performance Obligation Approach

Measurement – Non-contractual receivables

PV 8 – Initial measurement of non-contractual receivables should be at the face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment.

PV 9 – The fair value approach should be used for the subsequent measurement of non-contractual receivables.

Next Steps

The deadline for comments is January 15, 2018.

During the comment period IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The CP requests comments on both the PVs and the Specific Matters for Comment (SMCs).

Respondents may provide comments and answers on all the PVs and all the SMCs or just on PVs or SMCs. They are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on the CP will be discussed. The dates, the location of the 2017 and 2018 meetings are at:

<http://www.ipsasb.org/meetings>

To stay up to date about the projects, please visit:

<https://www.ipsasb.org/projects/revenue>

<https://www.ipsasb.org/projects/non-exchange-expenses>