

Exposure Draft (ED) 70 Summary—*Revenue with Performance Obligations*

This summary provides an overview of [Exposure Draft \(ED\) 70, Revenue with Performance Obligations](#).

Project objective:	The aim of Exposure Draft (ED) 70 is to develop a standard that provides recognition and measurement requirements for revenue transactions with performance obligations. This ED is part of a suite of three EDs that address how to account for revenue and transfer expenses, and should be read in conjunction with: <ul style="list-style-type: none">• ED 71, Revenue without Performance Obligations; and• ED 72, Transfer Expenses.
Project stage:	The IPSASB issued ED 70 in February 2020.
Next steps:	The International Public Sector Accounting Standard Board [®] (IPSASB [®]) seeks feedback on ED 70 to guide it in developing a final International Public Sector Accounting Standard [®] (IPSAS [®]) that establishes requirements for accounting for revenue with performance obligations.
Comment deadline:	ED 70 is open for public comment until September 15, 2020.
How to respond:	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 <u>and</u> Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the website.

Why the IPSASB Undertook this Project

The purpose of the IPSASB’s project on revenue with performance obligations is to develop new a standard that provides the recognition and measurement requirements for revenue transactions with performance obligations.

The primary objective of most public sector entities is to deliver goods or services to the public. As a result, the majority of transactions in the public sector relate to revenue and transfer expenses. There are currently three IPSAS on revenue recognition—IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*—but no existing guidance on transfer expenses.

To improve its standards and to develop requirements and guidance on topics not currently addressed by existing IPSAS, the IPSASB issued [Consultation Paper \(CP\), *Accounting for Revenue and Non-Exchange Expenses*](#), in August 2017. The responses to the CP influenced the IPSASB’s approach to the following:

- Reconsideration of the exchange versus non-exchange approach to the classification of revenue;
- Approaches for revenue recognition; and
- Measurement of non-contractual receivables and payables.

From the CP, three EDs were developed:

- ED 70, *Revenue with Performance Obligations*, which is aligned with IFRS 15, *Revenue from Contracts with Customers*;
- ED 71, *Revenue without Performance Obligations*, which is an update of IPSAS 23; and
- ED 72, *Transfer Expenses*, which proposes the accounting for transfer expenses and fills a significant gap in the IPSASB’s literature.

This ‘At a Glance’ document will focus on the proposals in ED 70.

Scope of ED 70

Table 1 illustrates the scope of ED 70, *Revenue with Performance Obligations*, and how it interacts with ED 71 and ED 72.

Table 1: Scope of ED 70, *Revenue with Performance Obligations*

Description	Revenue with Performance Obligations (ED 70)	Revenue without Performance Obligations (ED 71)			Transfer Expenses (ED 72)			Outside the scope of Transfer Expenses (ED 72)
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B, creating a present obligation for Entity B		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

Key Definition: Performance Obligation

A performance obligation is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:

- (a) A good or service (or a bundle of goods or services) that is distinct; or
- (b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.

Other Aspects of the Definition

A **binding arrangement** is an arrangement that confers both enforceable rights and obligations on both parties to the arrangement.

A **purchaser** is a party that pays for goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary.

A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets.

A good or service is considered **distinct** if both of the following criteria are met:

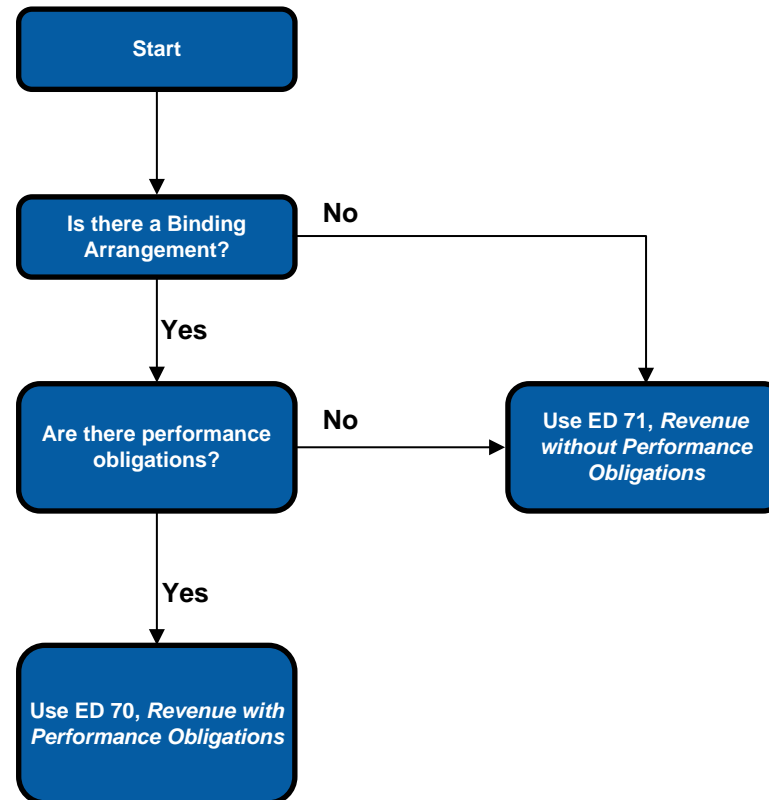
- The purchaser can generate economic benefits or service potential from the good or service, either on its own or with other available resources; and
- The promise is separately identifiable from other promises in the binding arrangement.

The performance obligation concept is used to determine whether a revenue transaction is within the scope of ED 70 or ED 71. Furthermore, under ED 70, revenue is recognized when (or as) a performance obligation is satisfied by the transfer of the promised goods or services to the purchaser or third-party beneficiary. (See pages 6 and 7.)

Accounting for Revenue with Performance Obligations

Under the proposed suite of standards, all revenue transactions will fall within the scope of either ED 70 or ED 71. Figure 1 illustrates the determination of whether a revenue transaction falls within the scope of ED 70 or ED 71.

Figure 1: Scoping for Revenue Transactions



The Five-Step Revenue Recognition Model

Revenue with performance obligations is accounted for using a five-step approach based on IFRS 15, *Revenue from Contracts with Customers*, modified for use in the public sector.

Figure 2: The Five-Step Revenue Recognition Model



Step 1: Identify the Binding Arrangement

The parties to the binding arrangement must have approved the binding arrangement, and be committed to performing their respective obligations.

The entity must be able to identify each party's rights regarding the goods or services to be transferred, and be able to identify the payment terms for the goods or services to be transferred.

The binding arrangement must also have economic substance, and it must be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred.

ED 70 proposes detailed guidance on the accounting for binding arrangements which do not meet all of the above criteria.

Step 2: Identify Performance Obligations

At the inception of the binding arrangement, the entity shall identify all performance obligations in the binding arrangement.

A performance obligation in this step of the model is the same as the performance obligation concept used to determine whether a transaction falls within the scope of ED 70 or ED 71. (See page 4.)

The Five-Step Revenue Recognition Model (continued)

The application of the five-step revenue recognition model will be straightforward in many cases. For example, where a binding arrangement only contains one performance obligation, the total transaction price will be allocated to that performance obligation.

Step 3: Determine the Transaction Price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services.

Determination of the transaction price may be complex due to the following factors:

- Variable consideration;
- Existence of a significant financing component;
- Non-cash consideration; and
- Consideration payable to a purchaser.

Step 4: Allocate the Transaction Price

The total transaction price is typically allocated to individual performance obligations based on their relative stand-alone price.

The stand-alone price of a good or service is the amount of consideration to which the entity expects to be entitled in exchange for transferring the individual promised goods or services.

Step 5: Recognize Revenue

An entity recognizes revenue at the amount allocated to a performance obligation when (or as) the entity satisfies that performance obligation by transferring the promised good or service.

A good or service is transferred when (or as) the purchaser or third-party beneficiary obtains control of that good or service—this transfer of control can occur at a point in time or over time.

Public Sector Considerations

ED 70 was primarily drawn from IFRS 15, *Revenue from Contracts with Customers*, and expanded to address public sector-specific issues.

Binding Arrangement

In some jurisdictions, public sector entities may not have the power to enter into legal contracts but nevertheless have the authority to enter into binding arrangements. (See page 4.) The scope of ED 70 was expanded to encompass revenue transactions arising from binding arrangements rather than only transactions arising from legal contracts.

As a result of this change, additional application guidance on binding arrangements and enforceability was added.

Transactions with Components within the Scope of ED 70 and Other Components within the Scope of ED 71

In the public sector, a purchaser may enter a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives—e.g., providing a donation in addition to obtaining goods or services. Application guidance was added to determine when and how an entity should separate these transactions into components which are accounted for under ED 70 and ED 71.

Compelled Transactions

In the public sector, there may be circumstances where an entity was compelled to satisfy a performance obligation regardless of the purchaser's ability or intention to pay for the delivered goods or services. Additional guidance was added to help constituents with the recognition, measurement and disclosure of these transactions.

Illustrative Examples

Public sector-relevant examples from IFRS 15 were modified as needed and included in ED 70. In addition, examples which had little or no applicability to the public sector were removed, and public sector-specific examples were added.

Next Steps

The deadline for comments is September 15, 2020.

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 ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it 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 carefully 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 ED 70 will be discussed. The dates and locations of 2020 meetings are available at: <http://www.ipsasb.org/meetings>.

To stay up to date about the project, please visit: <http://www.ipsasb.org/consultations-projects/revenue>.

Specific Matters for Comment

ED 70 includes four Specific Matters for Comment, which cover the following issues:

SMC 1: The definition of binding arrangement.

SMC 2: The IPSASB’s conclusion that the scopes of ED 70, ED 71, and ED 72 are sufficiently clear, and that the inclusion of the definitions of “Transfer Revenue with Performance Obligations” or “Transfer Revenue” was not necessary to clarify the relationship between the three EDs.

SMC 3: The proposed application guidance on the accounting for transactions with components relating to both revenue with performance obligations and revenue without performance obligations.

SMC 4: The alignment of disclosure requirements in ED 70 with those in IFRS 15 without the removal of any items.

SMC 5: The proposed disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.