

## Exposure Draft (ED) 71 Summary— *Revenue without Performance Obligations*

This summary provides an overview of [Exposure Draft \(ED\) 71, Revenue without Performance Obligations](#).

<b>Project Objective:</b>	The aim of Exposure Draft (ED) 71 is to develop a standard that provides recognition and measurement requirements for revenue transactions that do not have performance obligations. This ED is intended to update IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> . 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"><li>• <a href="#">ED 70, Revenue with Performance Obligations</a>; and</li><li>• <a href="#">ED 72, Transfer Expenses</a>.</li></ul>
<b>Project stage:</b>	The IPSASB issued ED 71 in February 2020.
<b>Next steps:</b>	The International Public Sector Accounting Standards Board <sup>®</sup> (IPSASB <sup>®</sup> ) seeks feedback on ED 71 to guide it in developing a final International Public Sector Accounting Standard <sup>®</sup> (IPSAS <sup>®</sup> ) that establishes requirements for accounting for revenue without performance obligations.
<b>Comment Date:</b>	The ED is open for public comment through September 15, 2020.
<b>How to Respond:</b>	Respondents are asked to submit their comments electronically through the IPSASB website, using the " <a href="#">Submit a Comment</a> " link on the ED page. Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.

## Why the IPSASB Undertook this Project

The purpose of the IPSASB's project stream on revenue without performance obligations is to update IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to provide recognition and measurement requirements for revenue transactions without 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. Based on responses to the CP, other drivers behind the development of the revenue project include:

- Consideration of whether to replace the exchange versus non-exchange distinction for classification of revenue with a focus on whether transactions include a performance obligation;
- 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*, 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 71 only.**

## Scope of ED 71

Table 1 illustrates the scope of ED 71, *Revenue without Performance Obligations*, and how it interacts with ED 70, and ED 72.

**Table 1: Scope of ED 71, *Revenue without 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 Definitions

ED 71 focuses on present obligations that are not performance obligations.

A present obligation is a binding obligation resulting in an outflow of resources which an entity has little or no realistic alternative to avoid.

A transfer provider may provide resources to a transfer recipient as required in a binding arrangement with an understanding that they will be used in a particular way.

**ED 71 addresses present obligations that are not performance obligations. A performance obligation is a specific type of present obligation is addressed in ED 70**

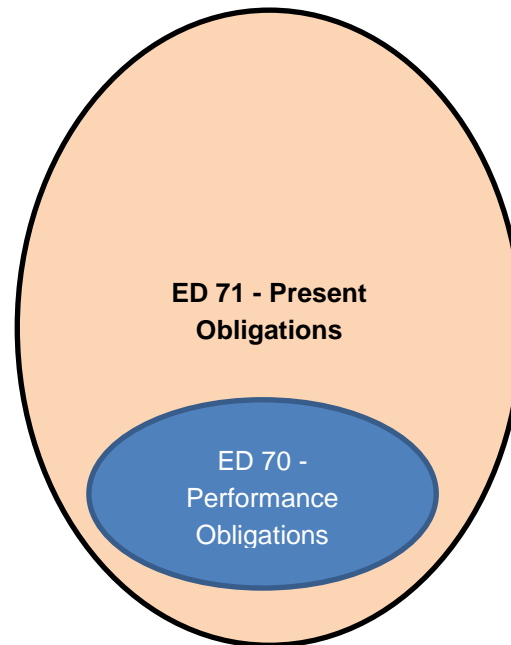


Diagram not to scale

### Present Obligations addressed in ED 71

A **capital transfer** is an inflow that arises from a binding arrangement, or cash or another asset with a requirement that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient.

Capital transfers are within the scope of ED 71 and not ED 70 because there is no requirement to transfer the asset once acquired or constructed.

An example of a capital transfer is using resources provided to build a hospital.

**Eligible expenditure** is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. Eligible expenditure does not have an identifiable specified activity.

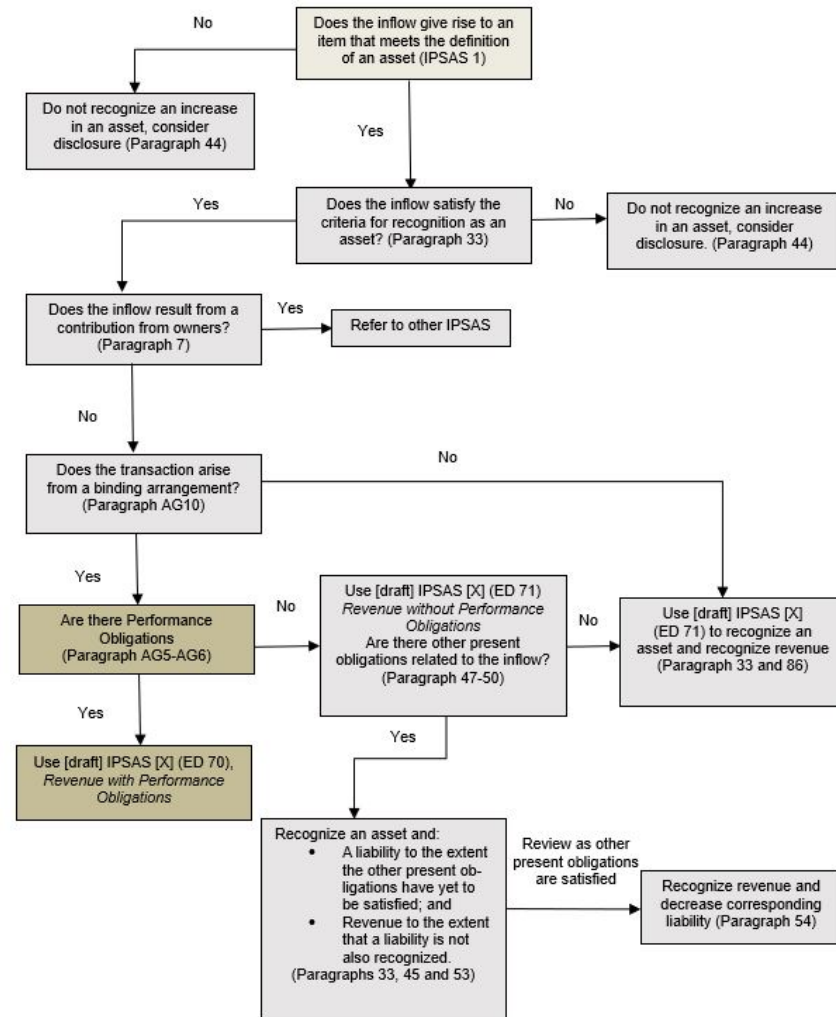
A **specified activity** is an action in a binding arrangement that must be completed by a transfer recipient.

An example of eligible expenditure is using resources to pay the salary for a particular position – e.g., medical specialist

An example of a specified activity is using resources to buy hospital beds for a hospital.

## Accounting for Revenue without Performance Obligations

ED 71 addresses how to account for revenue transactions that do not have performance obligations (as defined in ED 70).



Note: Grey boxes relate to ED 71 and Brown boxes relate to ED 70.

## The proposed ED 71 Revenue Recognition Model

The approach is illustrated in the flowchart above has several relevant decision points:

- Is there an asset that can be recognized?
- Does the inflow result from a contribution from owners?
- Does the transaction arise from a binding arrangement?
- Are there performance obligations?
- Are there other present obligations?
- Recognize revenue when (or as) present obligations are met.

### Step 1 – Is there an asset to be recognized?

If there is no asset to be recognized, then there is no revenue to be recognized. If an asset meets the definition and recognition criteria move onto Step 2.

### Step 2 – Does the inflow result from a contribution from owners?

Contributions from owners are not revenue and are therefore outside the scope of ED 71. If the inflow is not a contribution from owners move onto Step 3.

### Step 3 – Does the transaction arise from a binding arrangement?

If the transaction does not arise from a binding arrangement then revenue is recognized when the transfer recipient has control of the resources (DR Resources (e.g., Cash) CR Revenue). If the transaction arises from a binding arrangement move onto Step 4.

### Step 4 – Are there performance obligations in the binding arrangement?

If there are performance obligations in the binding arrangement, then the proposals in ED 70 are the correct requirements to use. If there are no performance obligations, move onto Step 5.

### Step 5 – Are there present obligations in the binding arrangement?

If there are no present obligations in the binding arrangement, then revenue is recognized when the transfer recipient has control of the resources (the same as in Step 3). If there are present obligations move onto Step 6.

### Step 6 – Recognize revenue when (or as) present obligations are met.

If the transaction has present obligations then when the transfer recipient has control of the resources, they will initially recognize an asset and a liability (e.g., DR Cash, CR Liability). As the present obligations are met, the transfer recipient will recognize revenue and derecognize the liability to the extent of the revenue recognized. (e.g., DR Liability, CR Revenue)

## Differences from IPSAS 23

ED 71 makes proposals that will update the requirements in IPSAS 23. In particular:

- Guidance on appropriations has been included;
- Guidance on capital transfers has been included; and
- The disclosure requirements for services in-kind have been strengthened.

### Transfers Subject to Appropriations

In some jurisdictions, a binding arrangement for revenue without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

In such circumstances, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. The transfer recipient will need to consider substance over form and determine whether this limitation means that the transfer recipient does not have control of those resources prior to the appropriation being authorized.

Where a transfer recipient has an enforceable right to the resources from the transfer provider prior to the approval of the appropriation, the transfer recipient has control over those resources and recognizes an asset for future transfers prior to the appropriation being authorized.

If a transfer recipient does not have an enforceable right to the resources prior to the appropriation being authorized, the transfer recipient only recognizes an asset when the appropriation has been authorized.

### Capital Transfers

Capital transfers are an important aspect of public sector transactions; they allow transfer recipients to acquire and control non-financial assets.

A binding arrangement for a capital transfer generally has a present obligation for a transfer recipient to either purchase or construct a non-financial asset. Initially the transfer recipient will recognize an asset (for the resources they control) and an associated liability. As the present obligation is satisfied as set out in the binding arrangement, revenue is recognized, and the liability is reduced.

### Services in-kind

IPSAS 23 currently encourages disclosure of the nature and type of services in-kind received, even if not recognized. The proposals in ED 71 takes these disclosures further by:

- Requiring disclosure of services in-kind that have been recognized; and
- Strongly encouraging qualitative disclosure about the nature and type of services in-kind received particularly if those services in-kind are integral to the transfer recipient's operations.

## 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 71 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/projects/revenue>.

### Specific Matters for Comment

ED 71 includes seven Specific Matters for Comment, which cover the following issues:

- SMC 1:** That a present obligation exists due to requirements related to a specified activity or eligible expenditure.
- SMC 2:** That the flowchart in ED 71 illustrates the process and relevant paragraphs for revenue recognition.
- SMC 3:** That sufficient guidance exists to determine when a present obligation is satisfied and when revenue should be recognized.
- SMC 4:** That sufficient guidance exists to determine how to allocate the transaction price between different present obligations.
- SMC 5:** The subsequent measurement of receivables should be in accordance with IPSAS 41.
- SMC 6:** The disclosure requirements are appropriate.
- SMC 7:** The structure of the proposed Standard is appropriate.