

IPSASB Consultation Paper Accounting for Revenue and Non-Exchange Expenses

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Session Outline

- Introduction to Consultation Paper (CP)
- Current accounting for revenue and non-exchange expenses
- CP proposed revenue approaches
- CP proposed non-exchange expenses approaches



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Introduction to IPSASB Consultation Paper



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Introduction to IPSASB Consultation Paper

- Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* issued by the IPSASB in August 2017
- Proposals are relevant for Tier 1 and Tier 2 public benefit entities (PBEs) – both not-for-profit and public sector entities
- Main area of focus, determining the appropriate accounting period for revenue and non-exchange expenses recognition – especially for funding arrangements that cover multiple accounting periods
- Comments are due to the NZASB by **22 November 2017** and to the IPSASB by **15 January 2018**



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Why the IPSASB Undertook the Project

- Challenges in the exchange and non-exchange distinction for revenue
- Gap in current IPSASB literature on non-exchange expenses
- Application issues with IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*
- Convergence with IASB, which diminished with the publication of IFRS 15 *Revenue from Contracts with Customers*



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Outline of Consultation Paper

Recognition of revenue

- Approach 1 Exchange/Non-Exchange: Update to IPSAS 23
- Approach 2 Public Sector Performance Obligation Approach (PSPOA)

Recognition of non-exchange expenses

- Approach 1 Extended Obligor Event Approach
- Approach 2 Public Sector Performance Obligation Approach



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Outline of Consultation Paper

Other IPSAS 23 application issues

- Capital grants
- Services in-kind

Measurement

- Non-contractual receivables
- Non-contractual payables

Illustrative examples

- Revenue approaches
- Non-exchange expense approaches



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Current Accounting for Revenue and Non-Exchange Expenses



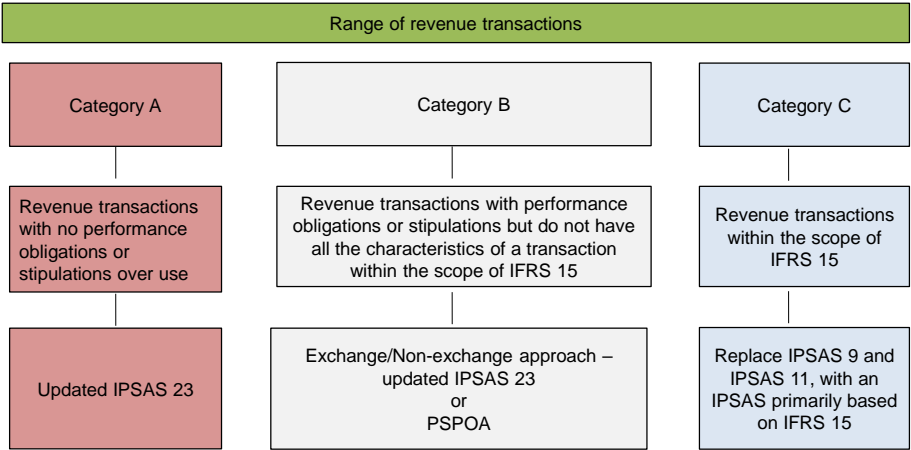
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CP Proposed Revenue Recognition Approaches



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Proposed Revenue Recognition Approaches



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Category B Revenue Transactions Approach 1: Exchange/Non-Exchange

To address the exchange/non-exchange determination issue

Option (a): Additional guidance on exchange/non-exchange distinction

To address transfers with time requirements

Option (b): Enhanced display/disclosure

Option (c): Classify time requirements as a condition

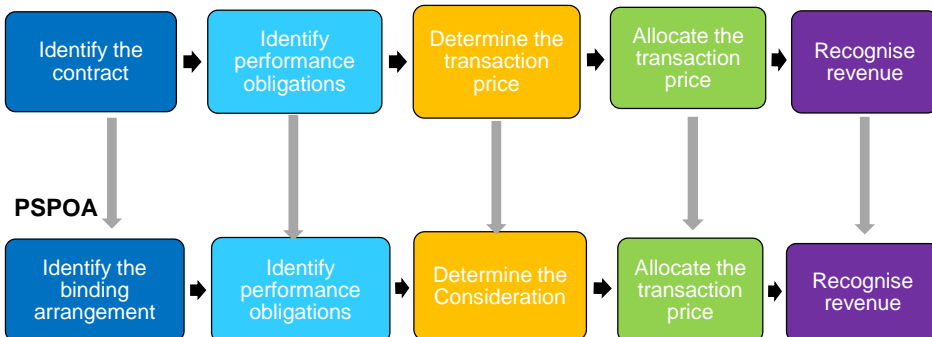
Option (d): Classify transfers with time requirements as other obligations

Option (e) Recognise in net assets/equity and recycle through statement of financial performance

Category B Revenue Transactions Approach 2: PSPOA

Five-step revenue recognition approach

IFRS 15



Example 1: Revenue Recognition

■ Example 1: General grant

- \$100K received upfront on balance date, 30 June 2017
- No return conditions
- To be used over three years for the charity's charitable purpose
- Non-exchange transaction

Question: Which proposed revenue recognition approach is the most appropriate?



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Example 1: Revenue Recognition

Conceptual challenge

- Some users and preparers would like the flexibility to recognise revenue in the same accounting period as the funding is consumed on charitable activities
- However to recognise a multi-year grant over a period of time (rather than at a point in time) requires the recognition of a liability

DR	Bank
CR	Liability (deferred revenue)

IPSASB's Conceptual Framework – definition of a liability

A present obligation for an outflow of resources to a third party, that results from a past event. A present obligation is one that the entity has little or no realistic alternative to avoid.



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Example 1: Revenue Recognition

Option (a) Additional guidance on exchange/non-exchange distinction

- Definitions of exchange and non-exchange
- Interpretation of “directly” and “approximately equal value”

An *exchange transaction* is defined as:

Transactions in which one entity receives assets or services, or has liabilities extinguished, and **directly** gives **approximately equal value** to another entity in exchange.



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Example 1: Revenue Recognition

Option (b) Enhanced display/disclosure

- Note disclosures for accumulated surplus/deficit
- Disaggregation of revenue in statement of financial performance



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Example 1: Revenue Recognition

Option (b) – Enhanced display/disclosure

Note Disclosure:
Accumulated surplus/deficit is \$300,000, within this amount is \$100,000 of revenue that has been recognised in the statement of financial performance. This resource is restricted for use to fund general operations for the years 2017 – 2020.

<u>Statement of Financial Performance:</u>	
Revenue – restricted (for use in 2017–2020)	100,000
Revenue – unrestricted	300,000
Total revenue	400,000
<u>Statement of Financial Position</u>	
Accumulated surplus/(deficit)	
Restricted	100,000
Unrestricted	200,000
This presentation option could make use of multiple columns – restricted and unrestricted movements.	



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Example 1: Revenue Recognition

Option (c) Classify time requirements as a condition

- Liability until resources used as intended
- Unlikely to meet the definition of a liability under the Conceptual Framework

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

- Do not meet the definition of a liability
- Recognise as other obligations for public interest



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Example 1: Revenue Recognition

Option (c) and (d) - taking restricted revenue to balance sheet

Initial recognition of grant

DR Bank \$100,000

CR Liability/Other Obligation \$100,000

Statement of financial position 30 June 2018		
	2018	2017
	\$	\$
<u>Liabilities - Option 1 (b)</u>		
Restricted revenue	66,667	100,000
or		
<u>Other obligations - Option 1 (c)</u>		
Restricted revenue	66,667	100,000

Statement of financial performance 30 June 2018		
	2018	2017
	\$	\$
<u>Revenue</u>		
General grant	33,333	-
<u>Expenses</u>		
Delivery of charitable services	(33,333)	-
Surplus/(deficit) for year	-	-



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Example 1: Revenue Recognition

Option (e) Recognise in net assets/equity and recycle through statement of financial performance

- Record resources received through Net assets/equity until resources are used
- Introduces concept of other comprehensive revenue and expense (OCRE) for revenue recognition



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Example 1: Revenue Recognition

Option (e) – accounting for restricted revenue through OCRE

Initial recognition of grant

DR Bank \$100,000

CR OCRE \$100,000

Statement of financial performance 30 June 2018		
	2018	2017
	\$	\$
<u>Revenue</u>		
General grant	33,333	-
<u>Expenses</u>		
Delivery of charitable services	(33,333)	-
Surplus/(deficit) for year	-	-
<u>Other comprehensive revenue and expense</u>		
Restricted revenue	-	100,000
Total comprehensive revenue and expense for the year	-	100,000

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Example 1: Revenue Recognition

Option (e) – accounting for restricted revenue through OCRE

Statement of Changes in Equity 30 June 2018		
	2018	2017
	\$	\$
<u>Accumulated funds</u>		
Opening	-	-
Surplus/(deficit) for the year	-	-
Closing	-	-
<u>Restricted revenue reserve</u>		
Opening	100,000	-
Other comprehensive revenue and expense	-	100,000
Recycled to surplus/(deficit) for the year	(33,333)	-
Closing	66,667	100,000
Total equity	66,667	100,000

Statement of financial position 30 June 2018		
	2018	2017
	\$	\$
<u>Assets</u>		
Bank	66,667	100,000
<u>Liabilities</u>		
Restricted revenue	-	-
Net assets	66,667	100,000
<u>Equity</u>		
Accumulated funds	-	-
Restricted revenue reserve	66,667	100,000
Total equity	66,667	100,000

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Example 1: Revenue recognition

Approach 2 – PSPOA



The IFRS 15 performance obligation approach is built around the principle that revenue is recognised when promised goods or services are transferred to the customer

General grant

- Enforceable performance obligations?
- Distinct performance obligations?
- Transfer of goods or services to third party?



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Example 1: Revenue Recognition

Question: Which proposed revenue recognition approach is the most appropriate?



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Example 2: Revenue Recognition

■ Example 2: Specific grant

- \$100K received upfront on balance date, 30 June 2017
- No return conditions
- To be used over three years to provide 3000 hours of counselling services to the community
- Charity reports to the funder on a monthly basis the progress of the counselling services provided
- Non-exchange transaction

Question: Which approach is the most appropriate?



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Example 2: Revenue Recognition

Approach 1: Exchange/Non-Exchange

Option (b): Enhanced display/disclosure

Option (c): Classify time requirements as a condition

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

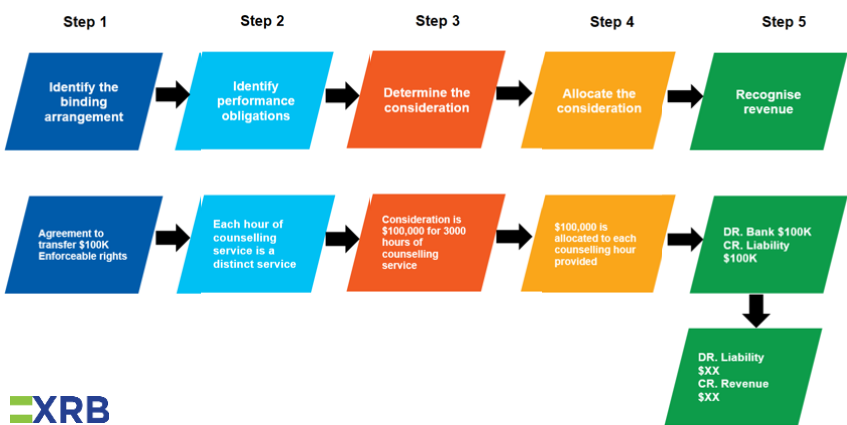
Option (e) Recognise in net assets/equity and recycle through statement of financial performance



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Example 2: Revenue Recognition

Approach 2: PSPOA



Example 2: Revenue Recognition

Question: Which approach is the most appropriate?



CP Proposed Non-Exchange Expenses Recognition Approaches



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Issues with Non-Exchange Expenses

- Some resource providers prefer to recognise multi-year grants over the period in which the grant is used by the resource recipient to deliver charitable services
- However to recognise a multi-year grant expense over a period of time (rather than at a point in time) requires the recognition of an asset

DR	Asset
CR	Liability/bank

IPSASB's Conceptual Framework – definition of an asset

A resource presently controlled by the entity as a result of past event.

A resource includes the assets capacity to provide services that contribute to achieving the entity's objectives.



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Non-Exchange Expenses Proposed Recognition Approaches

Approach 1 Extended Obligating Event Approach

- Mirrored approach to IPSAS 23
- Is there an obligating event?
- If there is a condition – recognise asset until condition is satisfied
- If there is a restriction – recognise expense immediately

Approach 2 PSPOA

- Counterpart to the approach for revenue
- Reconfigured from the resource provider perspective
- Expense recognised when resource recipient satisfies the performance obligation



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Non-Exchange Expenses Proposed Recognition Approaches

	Extended obligating event approach (EOEA)	PSPOA
Example 1 – General Grant	Recognise expense immediately No return obligation, there are only stipulations over use	Recognise expense immediately There are no specific or enforceable performance obligations
Example 2 – Specific Grant	Recognise expense immediately No return obligation, there are only stipulations over use	Recognise expense over time There are specific and enforceable performance obligations

Questions:

1. Which approach is most appropriate for each example?
2. Should the EOEA be extended further to allow the resource provider to recognise the expense over the period of the grant is consumed by the resource recipient if there is a time requirement and no return condition?



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Responding to Consultation Paper

- Comments due to NZASB by **22 November 2017**
- Comments due to IPSASB by **15 January 2018**
- Documents on XRB website
 - Consultation Paper
 - “At a Glance” document
- Send comments to NZASB at submissions@xrb.govt.nz
 - Answer all or some questions
 - Formal or informal comments in an email or letter
- Send comments directly to IPSASB at www.ifac.org



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Further Information

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Questions



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