Applying the CP approaches to revenue examples

1. To assist respondents in providing feedback on the proposed CP revenue recognition approaches, we have applied them to two examples.

Example 1: General grant

2. Fact pattern

   (a) A charity receives $100,000 on balance date from a public benefit entity (PBE).

   (b) The funds must be used over three years for the charity's charitable purpose.

   (c) There are no return conditions.

   (d) This is a non-exchange revenue transaction.

   We haven't applied Approach 1, option (a) because the fact pattern has confirmed this is a non-exchange revenue transaction.

   A summary of the current accounting and proposed approaches is set out it table 1 below.

Table 1 Example 1

Initial recognition	**Recognise revenue over more than one period**	**Presentation/disclosure**	**Comments**
Current accounting			
DR Bank $100K CR Revenue $100K	☒ No	Specific disclosures in IPSAS 23 such as: • Separate disclosure of non-exchange revenue by major classes; and • The amount of assets recognised that are subject to restrictions and the nature of those restrictions.	The grant has a restriction rather than a condition. The revenue is recognised when it is received (i.e. revenue is recognised upfront).
Approach 1: The Exchange/Non -Exchange Approach – Update of IPSAS 23			
Option (b) – Enhanced presentation			
DR Bank $100K CR Revenue $100K	☒ No	Note Disclosure: *As per the note disclosure in slide 19 of the webinar.* Disaggregation in the financial statements: *As per the presentation in slide 19 of the webinar.*	No changes to the recognition of revenue from the current accounting. There is enhanced note disclosure for accumulated surplus/deficit and presentation in the statement of financial performance.

Initial recognition	Recognise revenue over more than one period	Presentation/disclosure	Comments
Option (c) – Classify time requirements as a condition			
DR Bank $100K CR Liability $100K	☑ Yes DR Liability $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this option	An asset and corresponding liability are recognised on receipt of the grant. As the grant is used over the three-year period, revenue is recognised in the statement of financial performance and liability decreases by the equivalent amount.
Option (d) – Classify resources with time requirements as other obligations			
DR Bank $100K CR Other Obligation $100K	☑ Yes DR Other Obligation $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this option	This option is similar to option (c) except "that other obligation" is recognised on the balance sheet instead of a liability.
Option (e) – Recognise resources received with time requirements directly in net assets/equity and recycle through the statement of financial performance			
DR Bank $100K CR Net assets/equity $100K	☑ Yes DR Net assets/equity $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this option	An asset and corresponding net assets/equity is recognised when the grant is received. As the grant is used over the three-year period revenue is recognised in the statement of financial performance and net assets/equity is decreased by the equivalent amount.
The PBE Standards include the concept of other comprehensive income, this is other comprehensive revenue and expense. Under option (e) rather than recognising the resources received directly in equity, we would recognise the resources received that are expected to be used in subsequent reporting periods in other comprehensive revenue and expense (and then taken to a separate equity reserve). Other comprehensive income and expense is recycled to revenue in the period the resources are used.			
Approach 2: The PSPOA (see below for the five-step model)			
DR Asset $100K CR Revenue $100K	☒ No	No specific presentation/disclosure requirement is specified under this option	There are no enforceable promises to deliver distinct services to the PBE or to beneficiaries to which consideration can be allocated. Therefore, revenue is recognised when it is received. This arrangement does

Initial recognition	Recognise revenue over more than one period	Presentation/disclosure	Comments
			not contain performance obligations as described in the PSPOA approach.

The PSPOA five-step revenue recognition model	
Step 1 – Identify the binding arrangement	Both parties have entered into a binding agreement where the PBE agrees to transfer $100,000 for the charity's charitable purpose to be used over a three-year period (stipulation). However, the arrangement contains no promises to deliver distinct services to the PBE or to beneficiaries.
Step 2 – Identify the performance obligations	The arrangement contains no promises to deliver services that are distinct enough to consider linking the satisfaction of performance obligations and the consideration. While the charity's governing document requires it to operate as a charity, those requirements are obligations imposed by itself, and not by the PBE in this agreement. The PBE could not enforce the charity to deliver services to them, or to beneficiaries. Also, some of the funds used by the charity may not result in the direct transfer of services to beneficiaries. This arrangement does not contain performance obligations as described in the PSPOA five-step model.
Step 3 – Determine the consideration	The total consideration is $100,000.
Step 4 – Allocate the consideration	There are no performance obligations to allocate the consideration against.
Step 5 – Recognise revenue	The total revenue of $100,000 would be recognised by the charity when received (on signing) because there are no promises to deliver services to the PBE or to beneficiaries in the arrangement. DR Bank $100K CR Revenue $100K

Example 2: Specific grant

3. Fact pattern

(a) A charity receives $100,000 on balance date from a public benefit entity (PBE).

(b) The funds must be used to provide 3,000 hours of counselling services to the community over three years.

(c) The charity is required to report to the PBE on a monthly basis the progress of the counselling services provided. Progress is measured by the number of counselling hours provided in a month.

(d) There are no return conditions.

(e) This is a non-exchange revenue transaction.

We haven't applied Approach 1, option (a) because the fact pattern has confirmed this is a non-exchange revenue transaction.

A summary of the current accounting and proposed approaches is set out it table 2 below.

Table 2 Example 2

Initial recognition	**Recognise revenue over more than one period**	**Presentation/disclosure**	**Comments**
Current accounting			
DR Bank $100K CR Revenue $100K	☒ No	Specific disclosures in IPSAS 23 such as: • Separate disclosure of non-exchange revenue by major classes; and • The amount of assets recognised that are subject to restrictions and the nature of those restrictions.	The grant has a restriction rather than a condition. The revenue is recognised when it is received.
Approach 1: The Exchange/Non -Exchange Approach – Update of IPSAS 23			
Option (b) – Enhanced presentation			
DR Bank $100K CR Revenue $100K	☒ No	Disclosure: *As per the note disclosure in slide 19 of the webinar.* Disaggregation in the financial statements: *As per the presentation in slide 19 of the webinar.*	No changes to the recognition of revenue from the current accounting. There is enhanced note disclosure for accumulated surplus/deficit and presentation in the statement of financial performance.

Initial recognition	Recognise revenue over more than one period	Presentation/disclosure	Comments
Option (c) – Classify time requirements as a condition			
DR Bank $100K CR Liability $100K	☑ Yes DR Liability $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this option	An asset and corresponding liability is recognised on receipt of the grant. As the grant is used over the three-year period revenue is recognised in the statement of financial performance and the liability decreases by the equivalent amount.
Option (d) – Classify resources with time requirements as other obligations			
DR Bank $100K CR Other Obligation $100K	☑ Yes DR Other Obligation $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this option	This option is similar to option (c) except "other obligation" is recognised on the balance sheet instead of a liability.
Option (e) – Recognise resources received with time requirements directly in net assets/equity and recycle through statement of financial performance			
DR Bank $100K CR Net assets/equity $100K	☑ Yes DR Net assets/equity $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this option	An asset and corresponding net assets/equity is recognised when the grant is received. As the grant is used over the three-year period revenue is recognised in the statement of financial performance and net assets/equity is decreased by the equivalent amount.
The PBE Standards include the concept of other comprehensive income, this is other comprehensive revenue and expense. Under option (e) rather than recognising the resources received directly in equity, we would recognise the resources received that are expected to be used in subsequent reporting periods in other comprehensive revenue and expense (and then taken to a separate equity reserve). Other comprehensive income and expense is recycled to revenue in the period the resources are used.			
Approach 2: The PSPOA (see below for the five-step model)			
DR Bank $100K CR Liability $100K	☑ Yes DR Liability $XX CR Revenue $XX	No specific presentation/disclosure requirement is specified under this approach	There are enforceable performance obligations imposed on the charity to provide counselling services to the community, revenue is recognised as the counselling services are provided.

The PSPOA five- step revenue recognition model	
Step 1 – Identify the binding arrangement	The funding agreement establishes a binding arrangement where both parties have enforceable rights – the PBE has the ability to enforce the charity to provide the counselling services and the charity has the ability to enforce the funding under the arrangement.
Step 2 – Identify the performance obligations	In the agreement, the charity has promised to perform a task (the counselling services) for the PBE. The counselling services are a distinct service and the promises in respect of the counselling services are explicitly stated in the agreement. Each hour of counselling services provided is a performance obligation.
Step 3 – Determine the consideration	The total agreed consideration of $100,000 is promised for the provision of 3,000 hours of counselling services to the community.
Step 4 – Allocate the consideration	Consideration of $100,000 is allocated to each performance obligation as it is fulfilled – that is approx. $33 per hour of counselling service provided.
Step 5 – Recognise revenue	The charity would recognise revenue as it satisfies the performance obligation by providing the counselling services (reducing the liability that was initially recognised). The hours of counselling services provided would be an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. DR Bank $100K CR Liability $100K (a liability is recognised because the charity has yet to fulfill any performance obligation) DR Liability $XX CR Revenue $XX (revenue is recognised as the counselling services are provided)