



## ED71 – REVENUE WITHOUT PERFORMANCE OBLIGATIONS

Issued 30 October 2020

ICAEW welcomes the opportunity to comment on *ED71 – Revenue without Performance Obligations* published by the International Public Sector Accounting Standards Board (IPSASB), a copy of which is available from this [link](#).

We support the creation of the revenue and expenditure standards (ED70 – 72) based on the distinction between binding arrangements with or without performance obligations and therefore support this draft standard.

This response of 30 October 2020 has been prepared by the ICAEW public sector team with support from ICAEW's Public Sector Advisory Group.

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## KEY POINTS

### Support for the revenue standard

1. ICAEW supports the aim of ED71 which is to develop a standard that provides recognition and measurement requirements for revenue transactions without performance obligations. This is an important standard for the public sector given the volume of transactions that fall into this category and is a key difference compared with the private sector.

## ANSWERS TO SPECIFIC MATTERS FOR COMMENT (SMC)

### SMC 1:

***The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.***

***Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, Revenue without Performance Obligations, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?***

2. We agree with the proposals in this (draft) standard.
3. Enforceability of the binding arrangement is a key factor in whether a present obligation exists or not. To ensure that the transfer recipient incurs eligible expenditure and carries out specified activity as per the arrangement, the transfer provider will have to monitor such arrangements. The draft standard does not mention the monitoring of such arrangements in the authoritative sections and we would support an addition to the core text to clarify that unless monitoring takes place, then no present obligation can exist.

### SMC 2:

***The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition.***

***Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?***

4. Yes, we agree that the flowchart clearly illustrates the process.

### SMC 3:

***The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.***

***Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?***

5. We believe that the principles outlined in the standard are sufficient to determine when a present obligation is satisfied and hence when revenue should be recognised.

6. We note that both ED71 and ED72 contain significantly more guidance on whether to recognise revenue over time or at a point in time for transactions with performance obligations. Whilst guidance on the transfer of control of goods and service is not required for transactions without performance obligations, an illustrative example of revenue recognition over time and at a point in time would be useful for preparers given the impact this can have on the primary statements.

**SMC 4:**

***The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.***

***Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?***

7. Similar to our response to SMC 3 above, we believe that paragraphs 80 and 81 provide sufficient guidance to establish the general principles in a principles-based standard.
8. The equivalent guidance in ED70 is centred around allocating the transaction price to each performance obligation on a relative stand-alone price basis which is not applicable in ED71. However, the contrast in the level of guidance provided on the allocation of the transaction price is noticeable. Whilst we feel that the current guidance is sufficient, we urge IPSASB to monitor how this allocation is achieved in practice and to evaluate the possible need to add additional guidance.

**SMC 5:**

***Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, how do you propose receivables be accounted for?***

9. We agree that receivables within the scope of the standard should subsequently be measured in accordance with the requirements of IPSAS 41.

**SMC 6:**

***The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.***

***Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?***

10. We agree with the disclosure requirements in this draft standard and have not identified any disclosures that are not relevant, nor any obvious omissions.

**SMC 7:**

***Although much of the material in this [draft] Standard has been taken from IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), the IPSASB decided that***

***the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), Transfer Expenses.***

***Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?***

11. We support principles based standards as they provide more relevant and innovative financial statements than rules based standards and applaud IPSASB in filling an important gap in their suite of literature by creating a standard on transfer expenses and by updating their revenue recognition standards.
12. We agree with the approach taken and feel that the structure and principles are logically set out. Ultimately this is a question of judgement with regard to headings and sub-headings etc and time will tell if users of the standards will take issue with the layout and, more importantly, with the guidance contained within.
13. The draft ED's are long and complex and reading them in a linear fashion can cause confusion since ED71 and ED72 cover a multitude of transaction types. We also found the different application of the defined term 'performance obligation' in ED70 and ED72 confusing but we expand on this point in our response to ED72. We believe that it would be helpful for IPSASB to publish an accompanying, short, non-authoritative guide which provides a high-level overview of the three standards, drawing out the key terms, recognition and measurement principles. We have produced such an overview for our own purposes which we would be happy to share with IPSASB if requested.