

Comments and suggestions IPSAS Consultation Paper for Accounting for Revenue and Non-exchange Expenses

Pontoppidan, Caroline Aggestam; Anessi Pessina, Eugenio; Biondi, Yuri; Bisogno, Marco; Alijarde, Isabel Brusca; Caperchione, Eugenio; Caruana, Josette; Christiaens, Johan; Cohen, Sandra; Dabbicco, Giovanna; Hodges, Ron; Jorge, Susana; Manes Rossi, Francesca; Reichard, Christoph; Sicilia, Mariafrancesca; Steccolini, Ileana

Document Version
Final published version

Publication date:
2018

License
CC BY-NC-ND

Citation for published version (APA):
Pontoppidan, C. A., Anessi Pessina, E., Biondi, Y., Bisogno, M., Alijarde, I. B., Caperchione, E., Caruana, J., Christiaens, J., Cohen, S., Dabbicco, G., Hodges, R., Jorge, S., Manes Rossi, F., Reichard, C., Sicilia, M., & Steccolini, I., (2018). *Comments and suggestions IPSAS Consultation Paper for Accounting for Revenue and Non-exchange Expenses*, 11 p.

[Link to publication in CBS Research Portal](#)

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy

If you believe that this document breaches copyright please contact us (research.lib@cbs.dk) providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 04. Jul. 2025

Comments and suggestions IPSAS Consultation Paper for Accounting for Revenue and Non-Exchange Expenses

Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII

January 12, 2018

The IPSAS CP asks the following questions in its REQUEST FOR COMMENTS. The responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented hereafter.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 16 researchers from these networks. The responses being presented are based on an analysis of the Consultation Paper, the IPSASB Conceptual Framework, relevant IPSAS, and various published research papers on the subject. Following various meetings and discussions, the members of the Task Force have reached the following common conclusions and suggestions.

The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

Comments and suggestion considering the IPSASB CP for Accounting for Revenue and Non-Exchange Expenses

Core assumptions

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, then principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations herein.

Moreover, in our view, disregarding the revenue recognition principle may produce unwanted effects as it would generate “technical” surpluses and deficits. Although these effects would be neutral taking a long-term perspective, they may prove misleading for constituents and other users on a year-by-year basis. For example, constituents would not easily understand that a deficit is reported simply because funds that were intended to be used in the year had already been recognised as revenue in previous years.

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*, with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB’s Preliminary View 1? If not, please give your reasons.

Comment:

Agree.

In general, achieving a convergence between IASB’s and IPSASB’s standards could be useful for

consolidation purposes in countries where commercially-oriented entities provide reports based on IFRS. This approach does make sense in the case of exchange transactions. Otherwise, particularities of the public sector should prevail. Coherently, such a convergence can be considered appropriate for revenue originating from the Category C transactions, which are based on commercial terms. However, it should be taken into account that the current version of IPSAS 11 also addresses non-commercial contracts, which should be considered as Category B transactions (if this Category is retained – see our comments on PV 3 and SMC 2) or as Category A transactions.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions does not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Comment:

Agree.

We would suggest providing additional guidance concerning the identification of the taxable event¹, taking into account the distinct characteristics of the main public sector entities, such as central government, local governments, and their agencies. (See also SMC 4).

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

Comment:

A further area to be considered is providing additional guidance regarding taxes and fines with short collection periods (refer to answer to PV8).

Further clarification would be helpful on the accounting treatment of financial support provided on other than arms-length terms, as these might be seen to contain a non-exchange component. Such guidance might include concessionary loans, the deferral or release of loan repayment obligations and the giving of guarantees to third parties that provide finance to public sector organisations.

Several other non-exchange transactions frequently occurring in governments (e.g., the taking over of debts of other governments or organisations; providing funds to establish/create a new governmental or non-profit organisation; transfers of the member states to international organisations such as NATO, EU, UN; and so on) would require additional guidance.

Finally, additional guidance regarding voluntary contributions (with or without conditions attached) received by international organisations could be provided².

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

¹ Capalbo, F. and Sorrentino, M. (2013), Cash to Accrual Accounting: Does it mean more control for the public sector? The case of Revenue from Non-Exchange Transactions, *Risk governance & control: financial markets & institutions*, vol. 3, no. 4, pp. 28-35.

² Bergmann, A. and Fuchs, S. (2017), Accounting Standards for Complex Resources of International Organizations, *Global Policy*, vol. 8, supplement 5, pp. 26-35.

Comment:

Disagree for the following reasons.

(a) IPSASB defines the so-called Category B transactions as a hybrid class of exchange and non-exchange whereby performance obligations or stipulations or time requirements are emphasised. The accounting treatment proposed in the CP is that for exchange transactions, following the PSPOA approach in IFRS 15. In our opinion, this should not be a category apart from A and C, but belongs to the Category A Non-exchange transactions, whereby certain additional characteristics are considered and regulated.

(b) The PSPOA does not comprehensively tackle the issue of recognizing revenue over a time period. Furthermore, each of its five steps can cause several criticalities (see our response to SMC2 below).

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

Comment:

Disagree. It would often be difficult to apply in practice the five steps suggested by the CP, especially step no. 2 (identification of “distinct services”), for transactions that include a significant non-exchange component. We accept that public sector entities are capable of interpreting their relationships in ways that might fit the approach in IFRS 15, but we do not see this as the most natural or effective application in a public-sector setting.

Governments do not make deals like enterprises, which can agree almost freely on certain contractual binding arrangements and performance obligations implying price and thus revenue changes. Very often governments cooperate with other governments (e.g. local authorities) or with non-profit organizations based on legislation and regulations, which provide a framework including oversight activities in which the non-exchange transactions are conducted. Moreover, such public administration frameworks differ across countries and jurisdictions depending on constitutional laws and on the way governments are organized³. Furthermore, governments and non-profit organizations have fewer pure supplier-client relationships than private-sector enterprises; governments often cooperate by agency relationships in order to create public services and that is why they organize non-exchange activities. Therefore, it is difficult to apply IFRS 15 as a general reference for the wide variety of differently regulated public sector entities.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

(a) Option (b) – Require enhanced display/disclosure;

(b) Option (c) – Classify time requirements as a condition;

(c) Option (d) – Classify transfers with time requirements as other obligations; or

(d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

³ Ouda, H.A.G. (2016), A Practice-Relevant Approach for Revenues Recognition in the Public Sector Entities: A Practitioner's Perspective, *International Journal on Governmental Financial Management*, vol. XVI, no 2, pp. 52-67.

Please explain your reasons.

Comment:

Option b) can distort the performance measurement during a period if applied alone. In any case, disclosures cannot compensate for inadequate or inappropriate accounting. Additional disclosures may be useful in combination with other alternative options.

Option c) can create superficial liabilities.

Option d) might inflate liabilities; in fact, if there is no obligation to return any cash flows, they are not a liability but represent restricted funds. It is typical for governments to function as an agent on behalf of the society they represent and the resources they obtain are assigned to certain programs or objectives. Therefore, these resources are earmarked by allocating funds, which are not liabilities, but which are part of the net assets/equity. One can refer to the American governmental fund accounting system regulated by the US GASB (Governmental Accounting Standards Board).

Option e) can be adopted, although preferably without the use of and recycling in 'Other Comprehensive Income' (this expression would be misleading). We suggest using expressions like "Restricted Funds", to be considered as part of the net assets. This option allows the recognition of revenues over a period of time and their attribution to the period in which expenses for the provision of services occur. This solution, compared to the PSPOA, seems to better accommodate both the specificity of public sector entities and the revenue recognition principle. Indeed, it allows the recognition of revenues over more than one reporting period in those cases, very common in the public sector, in which binding agreements do not contain explicit promises about the distinct services to be delivered.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Comment:

Agree: Providing additional guidance could be useful.

More generally, providing "practical guides", where the distinct characteristics of the main public sector entities (central government, local governments, agencies, and so on) could be considered, would be useful. These guides could be provided in separate documents (not as an appendix of a standard) where different examples could help practitioners.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

Comment:

Agree: In most public sector entities or government levels, capital grants are material amounts and relevant to many public investments (e.g. in infrastructure).

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

Comment:

(a) The main issues have been identified. Capital grants recognition could be connected to the rules established by the entity which provides the grants. For example, for EU Grants, condition of receipt would normally be related to adherence to rules. Once adherence is approved, the grant is given.

(b) IAS 20's requirements can somehow be considered as a reference, allowing recognition of capital grants as revenue on a systematic basis over the useful life of the asset financed by the grants. We suggest adopting this approach since it allows the capital grants to appear in a separate line and can then be tracked over time and compared across entities. Furthermore, this approach is particularly suited for governments, given that, differently from private firms, capital grants are a common way of funding the purchase of non-current assets.

However, the deferred capital grants should not be recorded as a liability, but as a 'Capital Grant Fund' as part of the net assets/equity. The receipt of the capital grant and its accounting treatment should be disclosed in the notes.

We are not in favour of adopting the alternative approach of IAS 20, which considers capital grants as a deduction from the cost of the asset. This would influence information that is useful for cost accounting purposes. Deducting the grant from the cost of the asset would produce a misleading representation of the government's asset base for accountability purposes. There are cases where we are interested about the cost of services, regardless of funding sources, for performance measurement and other purposes.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

Please explain your reasons. If you favour an alternative approach please identify that approach and explain it.

Comment:

The existing requirements (Option a) reduce the comparability of financial statements. In our view, the services in-kind are free and should not be accounted for in the general ledger since their cost does not really exist. This does not mean that services in-kind should not be reported: they can have important consequences and should be documented, explained and disclosed off-balance sheet. We would argue that in terms of making an analysis or to take management decisions, the 'valuation' of services in-kind is necessary, but not in the general ledger where only really existing costs should be recorded.

Option b) might provide an excessive discretionary power.

A possible alternative approach (Option c) could consist in identifying the value of services in-kind and disclose it in the notes if a public sector entity considers these services significant and necessary (as in the case of services the entity would otherwise purchase, which means that obtaining information about their cost should not be onerous). Estimating the value of services in-kind can be a form of reporting, but we argue that non-existent costs must not be included in the general ledger. Accordingly, this option would mean that the issue of measuring the value of services in-kind may become relevant for decision making purposes. But for accountability purposes disclosure about them off-balance sheet may make sense.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Comment:

Agree, but please note that there is no obligating event (see PV 6).

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Comment:

Agree.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

Comment:

Disagree: If grants, contributions and other transfers belong to the Category B transactions, according to our comment on PV 3, the PSPOA should be avoided.

Disagree with the view that treatment of expenditure has to mirror treatment of revenues. Recognition of revenues and expenses should reflect the essence of the transaction from the lens of each part that is involved. It is important that public sector entities' revenues are not anticipated and/or overstated. This is consistent with the principle of conservatism, although the problem goes beyond the respect of this principle, evoking a more general and careful deliberation on the approach adopted while recognising revenues and expenses⁴.

To clarify our point of view, in the Appendix, we refer to the 'Illustrative Examples' provided by the Board at the end of the Consultation Paper.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Comment:

Agree with the initial recognition at face value (legislative amount).

It should be taken into account that one of the parties to the transaction is not "willing" (as also highlighted in the CP itself). This fact justifies that non-contractual and contractual receivables are treated differently. Moreover, sometimes a non-contractual receivable not only does not materialize, but may carry the risk of turning into a liability – for example, a court fine that is subsequently not paid and the transgressor ends up serving a prison sentence instead.

Agree with impairment methodology. If there is a high likelihood that significant amounts could be uncollectible, both non-contractual receivables and revenue should not be recognised (the entity could provide information in the notes). Otherwise, non-contractual receivables can be recognised at the

⁴ Biondi, Y., Tsujiyama, E., Glover, J., Jenkins, N.T., Jorgensen, B., Lacey, J. and Macve, R. (2014), 'Old Hens Make the Best Soup': Accounting for the Earning Process and the IASB/FASB Attempts to Reform Revenue Recognition Accounting Standards, *Accounting in Europe*, vol. 11, no. 1.

legislative amount, and any amount expected to be uncollectible is disclosed and taken into account at subsequent measurement.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Comment:

Disagree.

The cost approach, using undiscounted cash flows, is more straightforward, maybe less costly and less sensitive to political manipulation. The argument that adopting this approach implies that non-contractual receivables are not considered as financial instruments seems to be not so relevant, taking into account the characteristics of non-contractual receivables compared to those of contractual receivables (refer to our response to PV8).

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

Comment:

Support IPSAS 19 requirements, which are straightforward enough. Moreover, as in the previous case (see comments on PV8 and PV9), it is not relevant that non-contractual payables are not considered as financial instruments: after all, non-contractual payables are not similar to financial instruments because not all parties have necessarily entered "willingly" into the transaction.

Other comments

Chapter 6

- *Table on page 49: Universal Education does mitigate effect on social risks – should read "Yes"*
- *Re-6.29 and 6.34: In a tripartite situation, Steps 2 and 5 become complicated and onerous for the resource provider.*
- *Re-6.33: The allocation and bundling is subjective.*

Appendix

GENERAL (NON-SPECIFIC) GRANT: A national government transfers CU10 million to a local government to undertake social programs.

We find this example to be somewhat strange. It appears that there are no conditions at all placed on the local government for the supply of its services and that the grant is not returnable, under any circumstances, to the national government. We think that, in practice, some conditions / requirements would exist either in administrative law or in the outline terms for the payment of the grant. Furthermore, this appears to be a revenue grant that we would expect to be provided annually by the national government and not three years in advance. Nevertheless, we have taken the terms of the grant as given in the consultation paper.

Resource recipient (Local government) perspective (revenue recognition)			Resource provider (National government) perspective (expenses recognition)		
<i>Journal entries we support:</i>			<i>Journal entries we support:</i>		
Dr.	Receivables	10	Dr.	Expenses	10
Cr.	Restricted fund	10	Cr.	Liabilities	10
Dr.	Restricted fund	3.33			
Cr.	Revenue	3.33			
<p>Rationale for our position. In our view, the alternative treatment based on the recognition of this amount immediately and entirely as revenue (see our comment on SMC 3), is incorrect. The transfer is actually the provision of a “restricted fund”, being part of the net assets instead of being a liability. It is not a liability because there are no performance obligations on the local government and the funding is not repayable to the national government.</p> <p>In effect, the local government is receiving funding for three years of its activities as a lump sum rather than three individual annual grants.</p>			<p>Rationale for our position. In our view, when there is an agreement on the transfer as a non-exchange transaction, the provider immediately undergoes the expense of CU 10 million.</p> <p>The alternative treatment, based on the recognition of an asset, is incorrect. The national government has no asset, since the amount does not yield further benefit to the national government and it is non-refundable with no attached performance obligations (according to the terms of the example).</p> <p>We would also argue that “mirror thinking” may facilitate consolidation, but this is not the issue here. Maybe, the Board could take into consideration consolidation issues when drafting guidance.</p>		

A SPECIFIC GRANT (COVERING VACCINATIONS, WITH NO RETURN OBLIGATION): A national government signs an agreement to make a cash transfer of CU 5 million to a health service entity providing a vaccination program.

Resource recipient (Health service entity) perspective (revenue recognition)	Resource provider (National government) perspective (expenses recognition)
<i>Journal entries we support:</i> Dr. Cash	

MULTI-YEAR RESEARCH GRANT (WITH OBLIGATION TO RETURN ANY UNUSED CONSIDERATION): A national government will provide a research university with a grant of CU 25 million for publishing each of the 5 years' research results. Each instalment is payable at the start of each year.

This example includes an even allocation of grant payments and reports / other deliverables, leading to a smooth pattern of revenue & expense recognition. It seems more likely that the allocation would be 'lumpy' with more reporting later in the project and it is not clear whether this would change the pattern of revenue & expense recognition.

Resource recipient (Research University) perspective (revenue recognition)	Resource provider (National government) perspective (expenses recognition)
<i>Journal entries we support:</i> Dr. Receivable	

Date:

Signed:

Aggestam Pontopiddan	Caroline	Associate Professor of Accounting	Copenhagen Business School
Anessi Pessina	Eugenio	Professor of Public Management	Università Cattolica del Sacro Cuore, Milan, Italy
Biondi	Yuri	Senior Tenured Research Fellow of the CNRS (IRISSO, University Paris Dauphine PSL), France	Research Director, Laboratory of Excellence on Financial Regulation (Labex ReFI), Paris, France
Bisogno	Marco	Associate Professor of Accounting	University of Salerno, Italy
Brusca	Isabel	Professor of Accounting and Finance	University of Zaragoza, Spain
Caperchione	Eugenio	Professor of Public Management	Department of Economics “Marco Biagi”, Modena and Reggio Emilia University, Italy
Caruana	Josette	FCCA, FIA, CPA, MA (Fin. Services), PhD	Lecturer, Department of Accountancy, University of Malta, Malta
Christiaens	Johan	CPA, Public Sector EY	Professor Public Sector Accounting, Ghent University, Belgium
Cohen	Sandra	Associate Professor of Accounting	Department of Business Administration, Athens University of Economics and Business, Greece
Dabbicco	Giovanna	Researcher, PhD at Parthenope University of Naples	ISTAT, Italy
Hodges	Ron	Emeritus Professor of Accounting	Birmingham Business School, University of Birmingham, U.K.
Jorge	Susana	Assistant Professor with accreditation	Faculty of Economics, University of Coimbra, Portugal
Manes Rossi	Francesca	Associate Professor of Accounting, CPA, co-chair of EGPA PSGXII	University of Salerno, Italy
Reichard	Christoph	Professor Emeritus of Public Management	University of Postdam, Germany
Sicilia	Mariafrancesca	Associate Professor of Public Sector Management and Accounting	University of Bergamo, Italy
Steccolini	Ileana	Professor of Accounting & Finance	Newcastle University London