



# FINANCIAL REPORTING COUNCIL OF NIGERIA

*Federal Ministry of Industry, Trade and Investment*

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**October 26, 2020**

Ross Smith  
Program & Technical Director  
International Public Sector Accounting Standards Board  
227 Wellington Street  
West Toronto, ON M5V 3H2  
Canada

Dear Sir/Madam,

## **COMMENTS ON INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB) EXPOSURE DRAFT (ED) 71 - REVENUE WITHOUT PERFORMANCE OBLIGATION**

The Financial Reporting Council of Nigeria (FRC) hereby avails its input alongside its constituents in Nigeria on the IPSASB Exposure Draft ED/71 - *Revenue without Performance Obligations*.

In view of the responses received from the constituents in Nigeria, the Council wishes to comment on the exposure draft ED/71 as hereunder:

### **SPECIFIC MATTERS FOR COMMENTS**

#### **Specific Matter for Comment 1: (Paragraphs 14-21)**

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?

The presentations in the exposure draft have clearly shown that revenue without performance obligations and eligible expenditure do give rise to present obligations. Thus, we agree with the proposals in the draft standard on revenue without performance obligations

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Plot 8, OtunbaJobiFele Way, Central Business District, Alausa, P.O. Box10968, Ikeja, Lagos, Nigeria. Tel (234)01-17001150 01-17001151, 08175144101. [www.financialreportingcouncil.gov.ng](http://www.financialreportingcouncil.gov.ng)



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## **Specific Matter for Comment 2: (Paragraph 31)**

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?

While the flowchart demonstrates to a large extent the flow of revenue without performance obligation; in our view, the flow of the chart requires a little adjustment to clearly reflect the information contained in the standard. To this respect, we propose that identification of whether a transaction is with or without performance obligation be clearly captured. Also, we suggest for the inclusion of hybrid transaction in the flowchart. The figure below shows our proposed amendments to the flowchart:

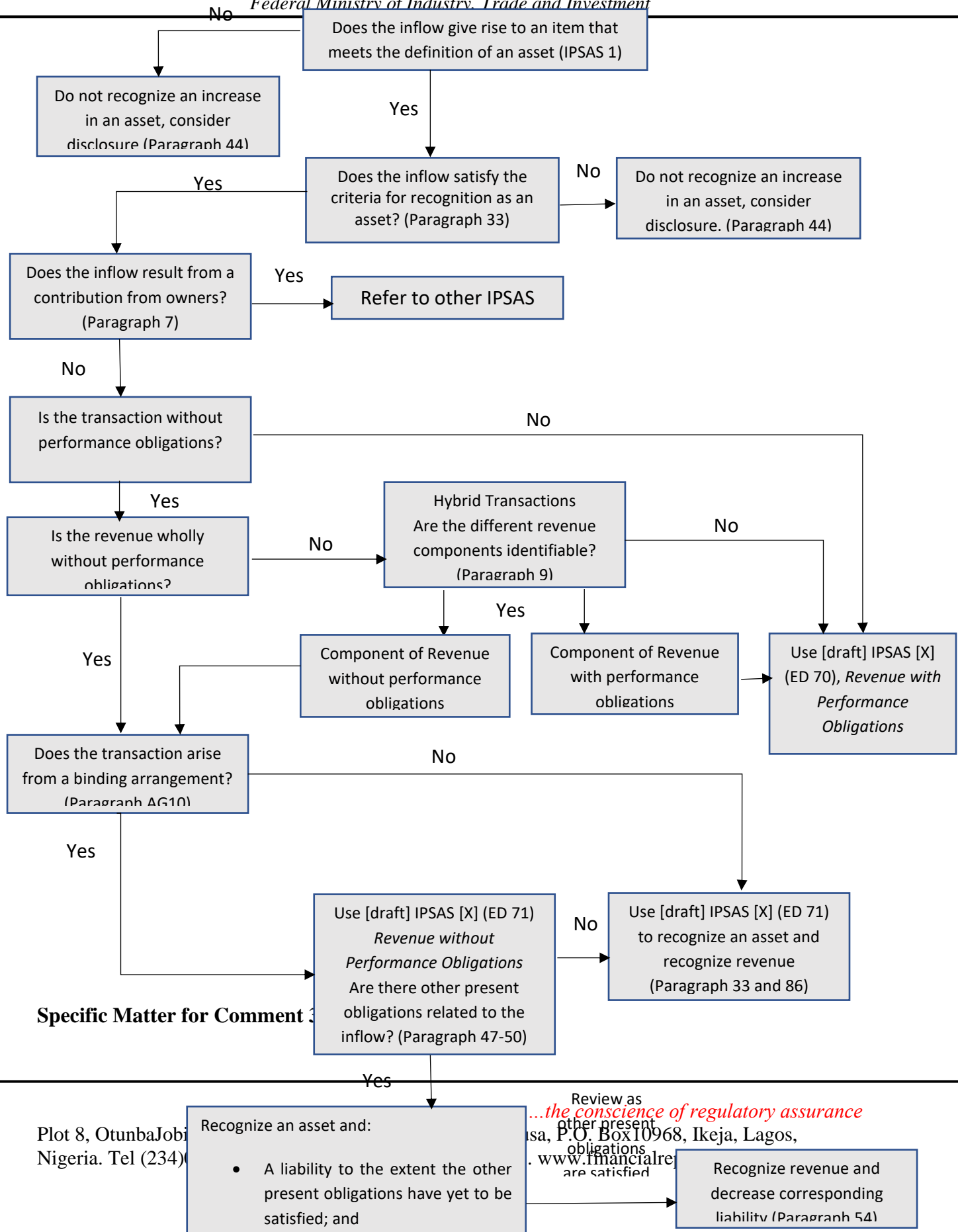
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Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to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

We agree that the draft standard has clearly provided sufficient guides on when present obligation is satisfied and when revenue should be recognized.

### **Specific Matter for Comment 4: (Paragraphs 80-81)**

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?

Yes, sufficient guidance exists

### **Specific Matter for Comment 5: (Paragraphs 84-85)**

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?

The provisions in IPSAS 41, Financial Instruments are sufficient enough to measure revenue received without performance obligation. This would allow the flow and good linkage between the various IPSASs thereby reducing the ambiguities in understanding them and their interpretations. To this respect, the Council agrees that receivables measurement in IPSAS 41 can be used to measure receivables without performance obligations.

### **Specific Matter for Comment 6: (Paragraphs 126-154)**

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?

The disclosure requirements in the draft standard are very sufficient

### **Specific Matter for Comment 7: (Paragraphs N/A)**

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

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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?

Yes, we do agree with the approach taken.

## General Observations

### Paragraph 1

- i. The objective of the standard given as “to establish the principles that an entity (transfer recipient) shall apply to report useful information to users of financial statements about the

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nature, amount, timing and uncertainty of revenue and cash flows arising from transactions without performance obligations” is adequate and it is largely reflected in the body of the standards; however, *uncertainty of revenue and cash flows* is not sufficiently addressed in the standards. We therefore suggest that the phrase “uncertainty of revenue and cash flows be removed from the objective of the standard to enable the objective to clearly capture the contents of the standard.

### Paragraph 10

- ii. We recommend that the definition of contingent asset be included in paragraph 10

### Paragraph 48

- iii. We suggest for the inclusion of: (f) Transfers from one government agency to another in paragraph 48.

### Paragraph 105

- iv. Paragraph 105 try to explain the concept of Tax expenditure; while the concept of tax expenditure was well explained, its treatment/disclosure was not clearly stated as done in

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the case of “Expenses paid through the tax system”. In the last sentence of paragraph 103 the treatment of expenses through the tax system was stated; therefore, the last sentence of paragraph 105 should also clearly bring out its treatment. We are proposing that the last sentence of the paragraph should read: tax expenditure should not be included in the revenue.

### **Paragraph 117**

- v. While it is agreed that pledges are contingent assets which might be realized in-time or over time, some pledges are too important to be treated only as contingent asset. It is suggested that pledged revenue without performance obligation should be recorded as assets when realized rather than remaining as contingent asset as depicted in the (draft) standard.

If you require any further information or clarification, do not hesitate to contact the Head, Directorate of Accounting Standards (Public Sector) on:

[ioanyahara@financialreportingcouncil.gov.ng](mailto:ioanyahara@financialreportingcouncil.gov.ng)

Yours faithfully,

**Iheanyi O. Anyahara, PhD**

**Head, Directorate of Accounting Standards – Public**

**For: Executive Secretary/CEO**

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