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OUR REF: ICAG/TRD/ED/2020/Q3/02

YOUR REF:

28th October, 2020

The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
New York

Dear Sir,

Comments on Exposure Draft (ED) 71: Revenue without Performance Obligations

We are grateful to the IPSASB for the opportunity given us to comment on the Exposure Draft (ED) 71; Revenue without Performance Obligations. We welcome the initiative of the IPSASB to come out with this Draft which stipulates how to measure, recognize and disclose revenues without performance obligations.

Below are our responses to the Specific Matters for Comment requested by the Exposure Draft.

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

Yes, we agree that a specified activity and eligible expenditure give rise to present obligations. A present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations on both parties. Also the arrangement leads to an outflow of resources to the transfer recipient and he cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.

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?

The flowchart clearly illustrates the processes a transfer recipient undertakes to determine whether revenue received constitutes performance obligation. The chart clearly explains what actions to take under each iterative step. It goes further even to explain what to do when debt or liability is forgiven. We believe that the chart is clear enough and explains all relevant processes in identifying performance obligation on the part of the transfer recipient.

Specific Matter for Comment 3: (Paragraph 57-58) 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?

We do not believe that the illustration in the guidance is sufficient enough to bring clarity about the understanding and application of this Standard to determine when a present obligation is satisfied and when revenue should be recognized. Further illustrative examples are required to help understand how a transfer recipient at the inception of a binding arrangement, whether it satisfies the present obligation over time or satisfies the present obligation at a point in time.

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

The guidance on the principle of allocation of the transaction price to performance obligations are clearly given and explained. The concepts are straight forward. However further illustrative examples on the application of how to allocate the transaction price to each present obligation so as to reflect the amount which the recipient expects to be entitled in satisfying the present obligation. Illustrations in the form of diagrams and graphs would be ideal.

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?

We agree with IPSASB's proposal that receivables within the scope of this Standard should be subsequently measured in accordance with the requirements of IPSAS 41 – Financial Instruments. However, if the receivable does not fall within the scope of IPSAS 41, it should be measured using amortization method. We also agree that, where a receivable not in the scope of IPSAS 41 as described in paragraph 84(b) does not satisfy the requirements in paragraph 40

of IPSAS 41, it shall be subsequently measured at fair value. Any changes in fair value are recognized in surplus or deficit.

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

We agree that the disclosure requirements in the draft Standard are adequate to provide users with sufficient, reliable and relevant information about revenue transactions without obligations. The objective of the disclosure requirements is for a transfer recipient to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions without performance obligations. Such disclosure shall be qualitative and quantitative information about all of the following: (a) Its binding arrangements with present obligations and (b) The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements. We believe that all the disclosures are relevant for proper understanding of the measurement and recognition of revenue transactions without performance obligations by the users of the general purpose financial reports prepared in compliance with the IPSAS.

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 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?

We agree with the approach taken by the ED and that the structure and broad principles and guidance are logically set out. The ED established 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.

We hope the IPSASB finds these comments helpful in further developing its consultations on exposure draft on Revenue without Performance Obligations. In turn, we are committed to helping the IPSASB in whatever way possible to build upon the results of this Exposure Draft.

We look forward to strengthening the dialogue between us. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

Yours Sincerely,



OSEI KWAKU ADJAYE-GYAMFI
DIRECTOR, TECHNICAL AND RESEARCH