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EXPOSURE DRAFT 70: REVENUE WITH PERFORMANCE OBLIGATIONS

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on **ED 70: Revenue with performance obligations**. PSASB welcomes the ED and the efforts of IPSASB to align this expected standard to IFRS 15. PSASB also notes that revenue recognition will provide more clarity under the new proposed standard for public sector entities and will resolve issues related to identification of exchange and non- exchange revenue as is the case currently.

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the Public Finance Management Act, 2012.

PSASB Kenya response is documented in the attachment for your consideration.

With kind regards.



FREDRICK RIAGA
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Specific Matter for Comment 1:

This Exposure Draft is based on IFRS 15, Revenue from Contracts with Customers. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement. Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

Comment: Agreed. The definition of binding arrangement is elaborate and mirrors, IFRS 15 requirements. The definition also clearly captures the uniqueness of public sector entities agreements/ arrangements.

Specific Matter for Comment 2:

This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations, and [draft] IPSAS [X] (ED 72), Transfer Expenses, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define "transfer revenue" or "transfer revenue with performance obligations" to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22. Do you agree with the IPSASB's decision not to define "transfer revenue" or "transfer revenue with performance obligations"? If not, why not?

Comment: Although PSASB finds the rationale included in paragraphs BC20-22 to be adequate, our proposal is that definitions for transfer revenue and transfer revenue with performance obligations be included in ED 70 and 71 to provide clarity for the constituents.

Specific Matter for Comment 3:

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70. Do you agree with the application guidance? If not, why not?

Comment: Agreed. PSASB agrees with AG69 requirement to allocate the transaction price to each performance obligation in the binding arrangement so that the allocation depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to a purchaser or third-party beneficiary. With respect to AG70, when dual purpose exists (obtaining goods or services and to help the entity achieve its objectives). The requirement that the presumption that the transaction price is wholly related to the transfer of goods or services is only limited to situations when the terms of the binding arrangement must clearly specify that only a portion of the consideration is to be returned to the purchaser in the event the entity does not deliver the promised goods or services, as this indicates that the remaining consideration is intended to help the entity achieve its objectives. This may not cover situations when the supplier is able to dictate the future prices and has no need therefore to demand a refund from the current transaction. E.g. the case of the only supplier (monopoly).

<p>Specific Matter for Comment 4:</p>
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<p>The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards. Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?</p>
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Comment: PSASB agrees that disclosure requirements as included in IFRS 15 and guidance on the same is clear. However, the following two matters may be considered further by IPSASB:

- i. In line with SMC for comment 3, it would be necessary to consider disclosure of arrangements in which a purchaser may enter into a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives and show the basis of splitting the two purposes.***
- ii. Constituents should be given an option to include disclosures that they consider relevant to ensure that the financial statements meet the qualitative characteristics and also cater for cost constraints as included in the conceptual framework.***

Specific Matter for Comment 5:

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47. Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?

Comment: PSASB agrees with the disclosure requirements under paragraph 120 and the rationale as set out in BC38-BC47. The unique nature of such agreements and transactions, makes it necessary for disclosures to help constituents understand the nature of services in detail.

