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Ross Smith

Program and Technical Director
International Public sector accounting standards Board
International Federation of Accountants
277 wellington Street West
Toronto
Ontario M5V3H2
CANADA

EXPOSURE DRAFT 71: REVENUE WITHOUT PERFORMANCE OBLIGATIONS

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on **ED 71: Revenue without performance obligations**. PSASB welcomes the Exposure Draft and the efforts of IPSASB to expand IPSAS 23 to make it more understandable for application by the constituents. Particularly, guidance on revenue with present obligations provides clarity with respect to treatment of a specified activity and eligible expenditure to the constituents.

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.



CPA FREDRICK RIAGA
CHIEF EXECUTIVE OFFICER,
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

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?

Comment: PSASB agrees with IPSASB's proposal that for Revenue without performance obligations, a specified activity and eligible expenditure give rise to present obligation. PSASB considers the two examples to be adequate for the purposes of giving rise to a present obligation.

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?

Comment: PSASB agrees that the flow chart presented illustrates fairly the process a transfer recipient undertakes to determine whether revenue arises. However, on the section where it states, "Does the inflow result from a contribution from owners?" PSASB recommends instead of referring to other IPSAS, IPSASB should detail the applicable IPSAS that one should refer to for ease of understanding and reference.

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.

Comment: The proposed standard gives sufficient guidance on the element of point in time or over time thereby guiding revenue recognition only to the extent of satisfying the present obligation. Consideration should be given to evaluate the existence of present obligation by analogy as a performance obligation since the treatment is the same for both with respect to revenue recognition and it implies a performance of something prior to revenue recognition.

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?

Comment: PSASB agrees that the guidance provided is sufficient as it is consistent with the matching principle of accounting

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?

Comment: PSASB agrees with the proposal on how receivable within the scope of this draft will be measured. IPSAS 41 provides robust measurement criterion that fulfils the scope of this [draft] standard. In addition, measurement in accordance with IPSAS 41 depicts the realization amounts for those receivables as opposed to face value that does not depict economic reality.

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

<p>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?</p>

Comment: PSASB takes note of the disclosure proposed by the IPSASB. The disclosures addresses the need to provide users with sufficient, reliable and relevant information. We would categorize the disclosures provided as follows:

- i) Relevant: 131, 132, Disclosures relating to binding arrangements (140- 150)***
- ii) Not Considered Relevant: 134, 141, 142: Chiefly on the basis that demonstrating to have addressed these disclosures will require great investment in resources to achieve the required extent of accuracy. The question will be consideration of benefits of these disclosures vis a vis the cost.***
- iii) Required 137, 140***

Specific Matter for Comment 7:

<p>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</p>



Republic of Kenya



CPA Centre, 8th Floor
Thika Road, Ruaraka
P.O. Box 38831 - 00100
Nairobi, Kenya
Cell: 0757 924 842
Tel: 020-2511557
www.psasb.go.ke

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?

Comment: PSASB considers that approach taken to be logical considering the expanded scope from IPSAS 23 as well as providing the other two EDs 70 and 72 for comments at the same time. This provides room for cross examination more so with respect to ED No. 72.