



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

31 January 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

CONSULTATION PAPER ON *ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES*

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Consultation Paper on *Accounting for Revenue and Non-exchange Expenses* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Part I: Preliminary Views

Preliminary View 1

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 agreement) with a customer which establishes performance obligations.

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

We agree with the IPSASB's preliminary view. We also wish to recommend that the IPSASB to carry out a cost-benefit analysis on the implementation of future standards on this matter. At the moment, as noted by the IPSASB in paragraph 4.64 of the CP, it is not possible to estimate such implementation costs.

Preliminary View 2

Because Category A revenue transactions do 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.

We agree with the IPSASB's Preliminary View 2.

Preliminary View 3:

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 view? If not, please give your reasons.

We would like to see the detailed proposal on the accounting of Category B transactions using the PSPOA before we can provide our comments on the matter.

Preliminary View 4

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.

We agree with the IPSASB's Preliminary View 4.

Preliminary View 5

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 view? If not, please give your reasons.

We agree with the IPSASB's Preliminary View 5.

Preliminary View 6

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 view? If not, please give your reasons.

We agree with the IPSASB's Preliminary View 6.

Preliminary View 7

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 view? If not, please give your reasons.

We would like to see the detailed proposal on the accounting of Category B transactions using the PSPOA before we can provide our comments on the matter.

Preliminary View 8

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

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

We do not agree with the IPSASB's Preliminary View 8 as it is inconsistent with relevant legislation pertaining to initial recognition of non-contractual receivables which is at face value. We believe that any amount expected to be uncollectible to be identified as impairment for the subsequent measurement. See our response on Preliminary View 9 below.

Preliminary View 9

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

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

Given that relevant legislation normally requires the amount to be at face value, we do not agree with the IPSASB's Preliminary View 9. We believe that the appropriate measurement should be cost less impairment.

Part II: Specific Matters for Comment

Specific Matter for Comment 1:

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 other 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 guidance you believe is needed.

Malaysia is in the midst of implementing accrual-based standards and accordingly, we have yet to identify the issues in applying IPSAS 23 on social contributions and taxes with long collection periods.

Specific Matter for Comment 2

The IPSASB has proposed to broaden 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
- Step 2 – Identify the performance obligation
- Step 3 – Determine the consideration
- Step 4 – Allocate the consideration
- Step 5 – Recognise revenue

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

If not please give your reasons.

We agree with the proposal of broadening the IFRS 15 five-steps to facilitate the performance obligation approach for Category B transactions subject to our comments in Preliminary View 3.

Specific Matter for Comment 3

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

- (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.

Please explain your reasons.

We prefer Option (d) i.e. classify transfers with time requirements as other obligations for the reason stated in paragraph 4.23 of the CP.

Specific Matter for Comment 4

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

Provide your reasons.

We agree that it should be used in combination with Approach 1 Option (a) as additional guidance will provide clarity in making the distinction between exchange and non-exchange transactions.

Specific Matter for Comment 5

- (a) Has the IPSASB identified the main issues with capital grants?
(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

- (a) We believe that the IPSASB has identified the main issues with capital grants.
- (b) In relation to accounting for capital grants, we recommend that the IPSASB consider the accounting treatment on grant that is based on the International Financial Reporting Standard for Small and Medium Entities (IFRS for SMEs). Paragraph 24.4 of IFRS for SMEs requires grants to be recognised as follows:
- a grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;
 - a grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met; and
 - grants received before the revenue recognition criteria are satisfied are recognised as a liability.

This will result in a simplified approach for treating capital grants and avoid the difficulty to determine whether a stipulation in respect of a grant is a condition or a restriction.

In addition, in paragraph 5.5 of the CP, the IPSASB stated that the accounting treatment that is based on IAS 20 *Government Grants and Disclosure of Government Assistance*, is inconsistent with the IPSASB Conceptual Framework. We recommend that this paragraph be expanded to explain the reason for such inconsistency.

Specific Matter for Comment 6

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 favor an alternative approach, please identify that approach and explain it.

We recommend that the IPSASB to retain the existing requirements for services in-kind as we are not aware of any significant issues with such existing requirements.

Specific Matter for Comment 7

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

- (a) cost of fulfilment approach;
- (b) amortised cost approach;
- (c) hybrid approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

We support applying the requirements of IPSAS 19 to account for non-contractual payables as it is straightforward to apply as well as it is consistent with the existing accounting treatment of such payables.