

North Carolina State Controller's Office

June 5, 2019

Revenue and Expense Recognition

ITC

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Revenue and Expense Recognition

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Revenue and Expense Recognition

What:

The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

Why:

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When:

Redeliberations began in June 2018

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Project Scope

The project scope broadly encompasses revenue and expense recognition but *excludes* the following:

Topics with guidance developed considering the current conceptual framework	Topics related to financial instruments	Topics related to transactions arising from recognition of capital assets or certain liabilities
For example, pensions and other post-employment benefits	For example, investments, derivatives, leases, and insurance	For example, depreciation, asset retirement obligations, and pollution remediation obligations

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Revenue and Expense Recognition Models

There are three components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Recognition is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)

Measurement is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)

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Revenue and Expense Recognition Models

There are four components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Measurement is the process of determining what *amount* to report for the element.

Basis of Accounting is the process of identifying when an element should be reported - for example, recognize revenue when earned

Recognition is the process of determining *what* element should be reported and *when*, and then recording the transaction on the accounting records.

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NonExchange

▶ GASB Statement No. 33 would be followed:

- Derived tax revenues
 - Income taxes & Sales Taxes
- Imposed nonexchange revenues
 - Property tax & Fines
- Government-mandated nonexchange revenues & expenses
 - Federal grants for programs local govt is required to perform/enabling
- Voluntary nonexchange revenues and expenses
 - Grants

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Exchange/Nonexchange Model

Classification	Is the transaction an exchange?	
Recognition	YES	NO
	Earnings recognition approach: <ul style="list-style-type: none"> • Government controls a resource, or incurs an obligation to sacrifice a resource, <li style="text-align: center;">and • The change in net assets is not applicable to a future period 	Provisions of Statement 33: <ul style="list-style-type: none"> • Derived tax revenue • Imposed nonexchange revenue • Government-mandated nonexchange transaction • Voluntary nonexchange transaction
Measurement	Measurement was not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.	

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Performance Obligation/ No Performance Obligation Model

Classification Does the transaction contain a performance obligation?

	YES	NO
Recognition	<p>Performance recognition approach:</p> <ul style="list-style-type: none"> • Determine consideration • Allocate consideration to performance obligation(s) • Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s) 	<p>Provisions of Statement 33:</p> <ul style="list-style-type: none"> • Derived tax revenue • Imposed nonexchange revenue • Government-mandated nonexchange transaction • Voluntary nonexchange transaction

Measurement *Measurement is not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.*

Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Redeliberations Began	June 2018
Preliminary Views Expected	2 nd Qtr. 2020

Exposure Draft Expected 4th Quarter 2021
Final Standard Expected 1st Quarter 2023

Questions

The Main Question I have is,
have you lost your mind GASB?



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