IPSASB Revenue and Expense EDs – for NZASB meetings

The IPSASB has now issued ED 70, ED 71 and ED 72.

This file contains all three EDs and At a Glance documents.

We will be discussing these EDs at a number of NZASB meetings. Although we will make this file available with each set of Board papers you might prefer to use this copy for all of the meetings.

If you would also like a Word version of the EDs please contact Joanne (Joanne.Scott@xrb.govt.nz).

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Exposure Draft (ED) 70 Summary—*Revenue with Performance Obligations*

This summary provides an overview of Exposure Draft (ED) 70, *Revenue with Performance Obligations.*

Project objective: The aim of Exposure Draft (ED) 70 is to develop a standard that provides recognition and measurement requirements for revenue transactions with performance obligations. This ED is part of a suite of three EDs that address how to account for revenue and transfer expenses, and should be read in conjunction with:

- ED 71, *Revenue without Performance Obligations*; and
- ED 72, *Transfer Expenses*.

Project stage: The IPSASB issued ED 70 in February 2020.

Next steps: The International Public Sector Accounting Standard Board® (IPSASB®) seeks feedback on ED 70 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that establishes requirements for accounting for revenue with performance obligations.

Comment deadline: ED 70 is open for public comment until September 15, 2020.

How to respond: Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the website.

This At a Glance publication has been prepared by staff of the International Public Sector Accounting Standards Board® (IPSASB®) for information purposes only. It does not form part of the standard or other authoritative publications of the IPSASB. It has not been reviewed, approved or otherwise acted upon by the IPSASB.

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Why the IPSASB Undertook this Project

The purpose of the IPSASB's project on revenue with performance obligations is to develop new a standard that provides the recognition and measurement requirements for revenue transactions with performance obligations.

The primary objective of most public sector entities is to deliver goods or services to the public. As a result, the majority of transactions in the public sector relate to revenue and transfer expenses. There are currently three IPSAS on revenue recognition—IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*—but no existing guidance on transfer expenses.

To improve its standards and to develop requirements and guidance on topics not currently addressed by existing IPSAS, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. The responses to the CP influenced the IPSASB's approach to the following:

- Reconsideration of the exchange versus non-exchange approach to the classification of revenue;
- Approaches for revenue recognition; and
- Measurement of non-contractual receivables and payables.

From the CP, three EDs were developed:

- ED 70, *Revenue with Performance Obligations*, which is aligned with IFRS 15, *Revenue from Contracts with Customers*;
- ED 71, *Revenue without Performance Obligations*, which is an update of IPSAS 23; and
- ED 72, *Transfer Expenses*, which proposes the accounting for transfer expenses and fills a significant gap in the IPSASB's literature.

This 'At a Glance' document will focus on the proposals in ED 70.

Scope of ED 70

Table 1 illustrates the scope of ED 70, *Revenue with Performance Obligations,* and how it interacts with ED 71 and ED 72*.*

Table 1: Scope of ED 70, *Revenue with Performance Obligations*

Description	Revenue with Performance Obligations (ED 70)	Revenue without Performance Obligations (ED 71)			Transfer Expenses (ED 72)			Outside the scope of Transfer Expenses (ED 72)
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B, creating a present obligation for Entity B		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

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Key Definition: Performance Obligation

A performance obligation is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.

Other Aspects of the Definition

A **binding arrangement** is an arrangement that confers both enforceable rights and obligations on both parties to the arrangement.

A **purchaser** is a party that pays for goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary.

A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets.

A good or service is considered **distinct** if both of the following criteria are met:

- The purchaser can generate economic benefits or service potential from the good or service, either on its own or with other available resources; and
- The promise is separately identifiable from other promises in the binding arrangement.

The performance obligation concept is used to determine whether a revenue transaction is within the scope of ED 70 or ED 71. Furthermore, under ED 70, revenue is recognized when (or as) a performance obligation is satisfied by the transfer of the promised goods or services to the purchaser or third-party beneficiary. (See pages 6 and 7.)

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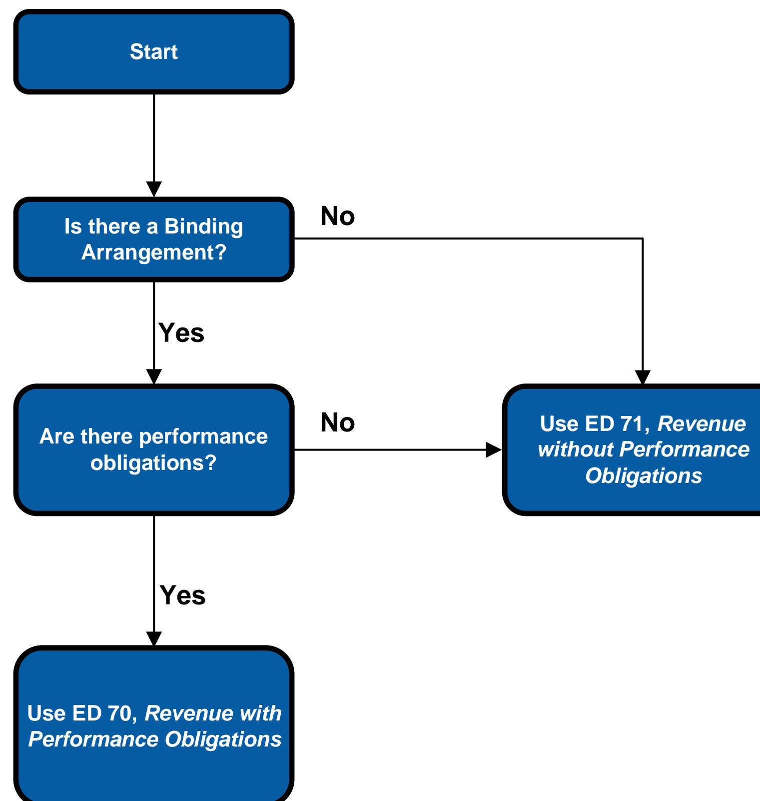
Accounting for Revenue with Performance Obligations

Under the proposed suite of standards, all revenue transactions will fall within the scope of either ED 70 or ED 71. Figure 1 illustrates the determination of whether a revenue transaction falls within the scope of ED 70 or ED 71.

Figure 1: Scoping for Revenue Transactions



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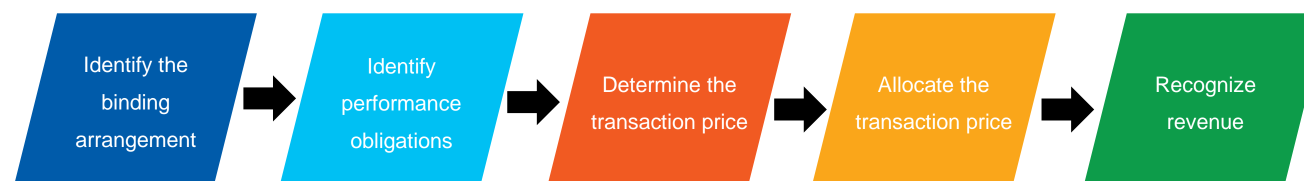
The Five-Step Revenue Recognition Model

Revenue with performance obligations is accounted for using a five-step approach based on IFRS 15, *Revenue from Contracts with Customers,* modified for use in the public sector.

Figure 2: The Five-Step Revenue Recognition Model



Step 1: Identify the Binding Arrangement

The parties to the binding arrangement must have approved the binding arrangement, and be committed to performing their respective obligations.

The entity must be able to identify each party's rights regarding the goods or services to be transferred, and be able to identify the payment terms for the goods or services to be transferred.

The binding arrangement must also have economic substance, and it must be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred.

ED 70 proposes detailed guidance on the accounting for binding arrangements which do not meet all of the above criteria.

Step 2: Identify Performance Obligations

At the inception of the binding arrangement, the entity shall identify all performance obligations in the binding arrangement.

A performance obligation in this step of the model is the same as the performance obligation concept used to determine whether a transaction falls within the scope of ED 70 or ED 71. (See page 4.)

The Five-Step Revenue Recognition Model (continued)

The application of the five-step revenue recognition model will be straightforward in many cases. For example, where a where a binding arrangement only contains one performance obligation, the total transaction price will be allocated to that performance obligation.

Step 3: Determine the Transaction Price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services.

Determination of the transaction price may be complex due to the following factors:

- Variable consideration;
- Existence of a significant financing component;
- Non-cash consideration; and
- Consideration payable to a purchaser.

Step 4: Allocate the Transaction Price

The total transaction price is typically allocated to individual performance obligations based on their relative stand-alone price.

The stand-alone price of a good or service is the amount of consideration to which the entity expects to be entitled in exchange for transferring the individual promised goods or services.

Step 5: Recognize Revenue

An entity recognizes revenue at the amount allocated to a performance obligation when (or as) the entity satisfies that performance obligation by transferring the promised good or service.

A good or service is transferred when (or as) the purchaser or third-party beneficiary obtains control of that good or service—this transfer of control can occur at a point in time or over time.

Public Sector Considerations

ED 70 was primarily drawn from IFRS 15, *Revenue from Contracts with Customers*, and expanded to address public sector-specific issues.

Binding Arrangement

In some jurisdictions, public sector entities may not have the power to enter into legal contracts but nevertheless have the authority to enter into binding arrangements. (See page 4.) The scope of ED 70 was expanded to encompass revenue transactions arising from binding arrangements rather than only transactions arising from legal contracts.

As a result of this change, additional application guidance on binding arrangements and enforceability was added.

Transactions with Components within the Scope of ED 70 and Other Components within the Scope of ED 71

In the public sector, a purchaser may enter a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives—e.g., providing a donation in addition to obtaining goods or services. Application guidance was added to determine when and how an entity should separate these transactions into components which are accounted for under ED 70 and ED 71.

Compelled Transactions

In the public sector, there may be circumstances where an entity was compelled to satisfy a performance obligation regardless of the purchaser's ability or intention to pay for the delivered goods or services. Additional guidance was added to help constituents with the recognition, measurement and disclosure of these transactions.

Illustrative Examples

Public sector-relevant examples from IFRS 15 were modified as needed and included in ED 70. In addition, examples which had little or no applicability to the public sector were removed, and public sector-specific examples were added.

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Next Steps

The deadline for comments is September 15, 2020.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on ED 70 will be discussed. The dates and locations of 2020 meetings are available at: http://www.ipsasb.org/meetings.
To stay up to date about the project, please visit: http://www.ipsasb.org/consultations-projects/revenue.

Specific Matters for Comment

ED 70 includes four Specific Matters for Comment, which cover the following issues:

SMC 1: The definition of binding arrangement.

SMC 2: The IPSASB's conclusion that the scopes of ED 70, ED 71, and ED 72 are sufficiently clear, and that the inclusion of the definitions of "Transfer Revenue with Performance Obligations" or "Transfer Revenue" was not necessary to clarify the relationship between the three EDs.

SMC 3: The proposed application guidance on the accounting for transactions with components relating to both revenue with performance obligations and revenue without performance obligations.

SMC 4: The alignment of disclosure requirements in ED 70 with those in IFRS 15 without the removal of any items.

SMC 5: The proposed disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.

Exposure Draft 70
February 2020
Comments due: September 15, 2020

IPSAS®

Proposed International Public Sector Accounting Standard®

Revenue with Performance Obligations

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This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft, *Revenue with Performance Obligations*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by September 15, 2020.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

This Exposure Draft is one of three Exposure Drafts released at the same time and forms part of the IPSASB's project on Revenue.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about revenue with performance obligations.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

This Exposure Draft follows a similar structure as other recently issued IPSAS. The requirements on recognition, measurement, presentation, and disclosure are grouped into their respective sections. Respondents should be aware that the structure of the Exposure Draft is not intended to be aligned with the order of the five steps to be followed when recognizing revenue, as described in the Objective section. The five-step revenue recognition model is meant to reflect how the requirements are to be operationalized and applied in practice.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

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?

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?

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?

Specific Matter for Comment 4:

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?

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?

EXPOSURE DRAFT 70, REVENUE WITH PERFORMANCE OBLIGATIONS

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from binding arrangements with a purchaser that include performance obligations to transfer promised goods or services[1] to the purchaser or third-party beneficiary.

2. To meet the objectives in paragraph 1, this [draft] Standard requires a reporting entity to recognize revenue by applying the following steps:

   (a) Step 1: Identifying the binding arrangement with a purchaser (see paragraphs 8-20);

   (b) Step 2: Identifying the performance obligations in the binding arrangement (see paragraphs 21-29);

   (c) Step 3: Determining the transaction price (see paragraphs 45-71);

   (d) Step 4: Allocating the transaction price to the performance obligations in the binding arrangement (see paragraphs 45 and 72-85); and

   (e) Step 5: Recognizing revenue when (or as) the entity satisfies a performance obligation (see paragraphs 30-44).

   Paragraphs AG2-AG4 provide additional guidance on the Objective.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue arising from binding arrangements with a purchaser that include performance obligations as defined in this [draft] Standard to transfer promised goods or services to the purchaser or third-party beneficiary. This [draft] Standard does not apply to:

   (a) Revenue arising from other arrangements (whether binding arrangements or not) that do not include performance obligations to transfer goods or services to the purchaser or third-party beneficiary (the entity shall apply the requirements of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* in accounting for such binding arrangements);

   (b) Lease contracts within the scope of IPSAS 13, *Leases*[2];

   (c) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[3];

   (d) Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, *Financial Instruments*;

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[1] In this [draft] standard, the terms goods and services or goods or services may encompass non-current assets.

[2] The IPSASB has a project to replace IPSAS 13, *Leases*. Refer to Exposure Draft (ED) 64, *Leases*.

[3] There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on Insurance contracts.

(e) Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements*: *Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36*, Investments in Associates and Joint Ventures,* IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits* and IPSAS 40, *Public Sector Combinations*;

(f) Non-monetary exchanges between entities in the same line of business to facilitate sales to purchasers or potential purchasers. For example, this [draft] Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to fulfill demand from their purchasers in different specified locations on a timely basis;

(g) Gains from the sale of non-financial assets that are not an output of an entity's activities and within the scope of IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets;*

(h) Changes in the value of other current assets;

(i) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and

(j) The extraction of mineral resources.

4. An entity shall apply this [draft] Standard to a binding arrangement with performance obligations (other than a contract or binding arrangement listed in paragraph 3) only if the counterparty to the binding arrangement is a purchaser. A counterparty to the binding arrangement would not be a purchaser if, for example, the counterparty has entered into a binding arrangement with the entity to participate in an activity or process in which the parties to the binding arrangement share in the risks and economic benefits or service potential that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's activities.

5. A binding arrangement with performance obligations may be partially within the scope of this [draft] Standard and partially within the scope of other Standards listed in paragraph 3.

   (a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction price the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 72–85 to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of this [draft] Standard and to any other parts of the binding arrangement identified by paragraph 5(b).

   (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this [draft] Standard to separate and/or initially measure the part (or parts) of the binding arrangement.

6. This [draft] Standard specifies the accounting for the incremental costs of obtaining a binding arrangement with performance obligations and for the costs incurred to fulfill a binding arrangement with a purchaser if those costs are not within the scope of another Standard (see paragraphs 90–103). An entity shall apply those paragraphs only to the costs incurred that relate to a binding

arrangement with a purchaser (or part of that binding arrangement) that is within the scope of this [draft] Standard.

Paragraphs AG5-AG6 provide additional guidance on the Scope.

Definitions

7. **The following terms are used in this [draft] Standard with the meanings specified:**

A binding arrangement is an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. A contract is a type of binding arrangement (paragraphs AG7-AG12 provide additional guidance).

A binding arrangement asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A binding arrangement liability is an entity's obligation to transfer goods or services to a purchaser or third-party beneficiary for which the entity has received consideration (or the amount is due) from the purchaser.

A contract is an agreement between two or more parties that creates enforceable rights and obligations.

Control of an asset is the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, the asset.

A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.

A performance obligation is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.

A purchaser is a party that pays for goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary (paragraph AG25 provides additional guidance). A customer is a type of a purchaser.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

The stand-alone price (of a good or service) is the price at which an entity would provide a promised good or service separately to a purchaser or third-party beneficiary.

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets (paragraph AG22 provides additional guidance).

The transaction price is the amount of consideration to which an entity expects to be entitled.

For the purposes of this [draft] Standard, the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a purchaser or third-party beneficiary, excluding amounts collected on behalf of third parties.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

Recognition

Step 1: Identifying the Binding Arrangement

8. **An entity shall account for a binding arrangement with a purchaser that is within the scope of this [draft] Standard only when all of the following criteria are met:**

   (a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;

   (b) The entity can identify each party's rights regarding the goods or services to be transferred;

   (c) The entity can identify the payment terms for the goods or services to be transferred;

   (d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG26-AG28 provide additional guidance); and

   (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary (paragraphs AG29-AG31 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the purchaser's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the binding arrangement if the consideration is variable because the entity may offer the purchaser a price concession (see paragraph 51).

   Paragraphs AG7-AG24 provide additional guidance on identifying the binding arrangement.

9. A binding arrangement creates both enforceable rights and obligations on both parties to the arrangement. Enforceability of the rights and obligations in a binding arrangement is created through legal or equivalent means. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Binding arrangements can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements with purchasers vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of purchaser or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an arrangement with a purchaser creates enforceable rights and obligations.

10. Some binding arrangements with purchasers may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this [draft] Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which both parties to the binding arrangement have present enforceable rights and obligations.

11. For the purpose of applying this [draft] Standard, a binding arrangement does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

    (a) The entity has not yet transferred any promised goods or services to the purchaser or third-party beneficiary; and

    (b) The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

12. If a binding arrangement with a purchaser meets the criteria in paragraph 8 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a purchaser's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the purchaser or third-party beneficiary.

13. If a binding arrangement with a purchaser includes performance obligations to transfer goods or services to the purchaser or third-party beneficiary, but does not meet the criteria in paragraph 8, an entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 8 are subsequently met.

14. When a binding arrangement with a purchaser within the scope of this [draft] Standard does not meet the criteria in paragraph 8 and an entity receives consideration from the purchaser, the entity shall recognize the consideration received as revenue only when either of the following events has occurred:

    (a) The entity has transferred the goods or services to which the consideration that has been received relates, the entity has no obligation to transfer additional goods or services for the consideration received, and the consideration received from the purchaser is non-refundable; or

    (b) The binding arrangement has been terminated and the consideration received from the purchaser is non-refundable.

15. An entity shall recognize the consideration received from a purchaser as a liability until one of the events in paragraph 14 occurs or until the criteria in paragraph 8 are subsequently met (see paragraph 13). Depending on the facts and circumstances relating to the binding arrangement, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the purchaser.

Combination of Binding Arrangements

16. An entity shall combine two or more binding arrangements entered into at or near the same time with the same purchaser (or related parties of the purchaser) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

(a) The binding arrangements are negotiated as a package with a single objective;

(b) The amount of consideration to be paid in one binding arrangement depends on the price or performance of the other binding arrangement; or

(c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance obligation in accordance with paragraphs 21–29.

Modifications to a Binding Arrangement

17. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

18. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price, an entity shall estimate the change to the transaction price arising from the modification in accordance with paragraphs 49–53 on estimating variable consideration and paragraphs 55–57 on constraining estimates of variable consideration.

19. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

(a) The scope of the binding arrangement increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 25–29); and

(b) The price of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone price of an additional good or service for a discount that the purchaser receives, because it is not necessary for the entity to incur the related costs that it would incur when providing a similar good or service to a new purchaser.

20. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 19, an entity shall account for the promised goods or services not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 21(b)) is the sum of:

   (i) The consideration promised by the purchaser (including amounts already received from the purchaser) that was included in the estimate of the transaction price and that had not been recognized as revenue; and

   (ii) The consideration promised as part of the modification to a binding arrangement.

(b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Step 2: Identifying Performance Obligations

21. **At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a purchaser and shall identify as a performance obligation each promise to transfer to the purchaser or third-party beneficiary either:**

   (a) A good or service (or a bundle of goods or services) that is distinct; or

   (b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary (see paragraph 22).

   Paragraphs AG32-AG42 provide additional guidance on identifying performance obligations.

22. A series of distinct goods or services has the same pattern of transfer to the purchaser or third-party beneficiary if both of the following criteria are met:

   (a) Each distinct good or service in the series that the entity promises to transfer to the purchaser or third-party beneficiary would meet the criteria in paragraph 34 to be a performance obligation satisfied over time; and

   (b) In accordance with paragraphs 38–39, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the purchaser or third-party beneficiary.

Promises in Binding Arrangements with Purchasers

23. A binding arrangement with a purchaser generally explicitly states the goods or services that an entity promises to transfer to a purchaser or third-party beneficiary. However, the performance obligations identified in a binding arrangement with a purchaser may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement with a purchaser may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the purchaser that the entity will transfer a good or service to the purchaser or third-party beneficiary.

24. Performance obligations do not include activities that an entity must undertake to fulfill a binding arrangement unless those activities transfer a good or service to a purchaser or third-party beneficiary. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not transfer a service to the purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a performance obligation.

Distinct Goods or Services

25. Depending on the binding arrangement, promised goods or services may include, but are not limited to, the following:

    (a) Provision of goods produced by an entity (for example, inventory such as publications or municipal water provided for a fee);

    (b) Goods purchased by an entity provided to citizens (for example, waste collection bins);

    (c) Resale of rights to goods or services purchased by an entity (for example, an emission allowances resold by an entity acting as a principal, see paragraphs AG77–AG85);

    (d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose);

    (e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities);

    (f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);

    (g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG77–AG85);

    (h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);

    (i) Constructing, manufacturing or developing an asset on behalf of a purchaser; (for example, a government works department building a recreational facility for a municipality);

    (j) Granting licenses (see paragraphs AG100–AG113); and

(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG86–AG90).

26. A good or service that is promised to a purchaser is distinct if both of the following criteria are met:

(a) The purchaser can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to the purchaser (i.e., the good or service is capable of being distinct). A purchaser can generate the economic benefits or service potential from the good or service transferred to a third-party beneficiary when the transfer of the good or service to the third-party beneficiary contributes to the purchaser achieving its service delivery objectives; and

(b) The entity's promise to transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

27. A purchaser can generate the economic benefits or service potential from the good or service in accordance with paragraph 26(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a purchaser may be able to generate the economic benefits or service potential from the good or service on its own. For other goods or services, a purchaser may be able to generate the economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the purchaser has already obtained from the entity (including goods or services that the entity will have already transferred to the purchaser or third-party beneficiary under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the purchaser can generate the economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly provides a good or service separately would indicate that a purchaser can generate the economic benefits or service potential from the good or service on its own or with other readily available resources.

28. In assessing whether an entity's promises to transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 26(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a purchaser or third-party beneficiary are not separately identifiable include, but are not limited to, the following:

(a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the purchaser has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the purchaser. A combined output or outputs might include more than one phase, element or unit.

(b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.

(c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfill its promise by transferring each of the goods or services independently.

29. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a binding arrangement as a single performance obligation.

Step 5: Satisfaction of Performance Obligations

30. **An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a purchaser or third-party beneficiary. An asset is transferred when (or as) the purchaser or third-party beneficiary obtains control of that asset.**

Paragraphs AG43-AG60 provides additional guidance on the satisfaction on performance obligations.

31. For each performance obligation identified in accordance with paragraphs 21–29, an entity shall determine at the inception of the binding arrangement whether it satisfies the performance obligation over time (in accordance with paragraphs 34–36) or satisfies the performance obligation at a point in time (in accordance with paragraph 37). If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

32. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). The economic benefits or service potential embodied in an asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:

(a) Using the asset to produce goods or provide services (including public services);

(b) Using the asset to enhance the value of other assets;

(c) Using the asset to settle liabilities or reduce expenses;

(d) Selling or exchanging the asset;

(e) Pledging the asset to secure a loan; and

(f) Holding the asset.

33. When evaluating whether a purchaser obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs AG114–AG126).

Performance Obligations Satisfied Over Time

34. An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

(a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG44–AG45);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG46); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 35) and the entity has an enforceable right to payment for performance completed to date (see paragraph 36).

35. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AG47–AG49 provide guidance for assessing whether an asset has an alternative use to an entity.

36. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph 34(c). The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the binding arrangement is terminated by the purchaser or another party for reasons other than the entity's failure to perform as promised. Paragraphs AG50–AG54 provide guidance for assessing the existence and enforceability of a right to payment and whether an entity's right to payment would entitle the entity to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

37. If a performance obligation is not satisfied over time in accordance with paragraphs 34–36, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 30–33. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset—if a purchaser is presently obligated to pay for an asset, then that may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.

(b) The purchaser or third-party beneficiary has legal title to the asset—legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore,

the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity retains legal title solely as protection against the purchaser's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset—the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a purchaser or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the purchaser controls. Paragraphs AG114–AG126, AG127–AG128 and AG129–AG132 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a purchaser but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The purchaser has accepted the asset—the purchaser's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG133–AG136.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

38. For each performance obligation satisfied over time in accordance with paragraphs 34–36, an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a purchaser or third-party beneficiary (i.e., the satisfaction of an entity's performance obligation).

39. An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for Measuring Progress

40. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG55–AG60 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the purchaser or third-party beneficiary.

41. When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to a purchaser or third-party beneficiary. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a purchaser or third-party beneficiary when satisfying that performance obligation.

42. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reasonable Measures of Progress

43. An entity shall recognize revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

44. In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Measurement

45. **When (or as) a performance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 55–57) that is allocated to that performance obligation.**

Step 3: Determining the Transaction Price

46. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a purchaser or third-party beneficiary, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement with a purchaser may include fixed amounts, variable amounts, or both.

47. The nature, timing and amount of consideration promised by a purchaser affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following:

    (a) Variable consideration (see paragraphs 49–54 and 58);

    (b) Constraining estimates of variable consideration (see paragraphs 55–57);

    (c) The existence of a significant financing component in the binding arrangement (see paragraphs 59–64);

    (d) Non-cash consideration (see paragraphs 65–68); and

    (e) Consideration payable to a purchaser (see paragraphs 69–71).

48. For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the purchaser or third-party beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

49. If the consideration promised in a binding arrangement includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a purchaser or third-party beneficiary.

50. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

51. The variability relating to the consideration promised by a purchaser may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:

    (a) The purchaser has a valid expectation arising from an entity's customary practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the binding arrangement. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, sector or purchaser this offer may be referred to as a discount, rebate, refund or credit.

    (b) Other facts and circumstances indicate that the entity's intention, when entering into the binding arrangement with the purchaser, is to offer a price concession to the purchaser.

52. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

    (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

53. An entity shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund Liabilities

54. An entity shall recognize a refund liability if the entity receives consideration from a purchaser and expects to refund some or all of that consideration to the purchaser. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs AG61–AG68.

Constraining Estimates of Variable Consideration

55. An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 52 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

56. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

(e) The binding arrangement has a large number and broad range of possible consideration amounts.

57. An entity shall apply paragraphs AG111-AG113 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

58. At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction price in accordance with paragraphs 86–89.

The Existence of a Significant Financing Component in the Binding Arrangement

59. In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the purchaser or the entity with a significant benefit of financing the transfer of goods or services to the purchaser or third-party beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

60. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the price that a purchaser would have paid for the promised goods or services if the purchaser had paid cash for those goods or services when (or as) they transfer to the purchaser or third-party beneficiary (i.e., the cash price). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

    (a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services; and

    (b) The combined effect of both of the following:

        (i) The expected length of time between when the entity transfers the promised goods or services to the purchaser or third-party beneficiary and when the purchaser pays for those goods or services; and

        (ii) The prevailing interest rates in the relevant market.

61. Notwithstanding the assessment in paragraph 60, a binding arrangement with a purchaser would not have a significant financing component if any of the following factors exist:

    (a) The purchaser paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the purchaser.

    (b) A substantial amount of the consideration promised by the purchaser is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the purchaser or the entity (for example, if the consideration is a sales-based royalty).

(c) The difference between the promised consideration and the cash price of the good or service (as described in paragraph 60) arises for reasons other than the provision of finance to either the purchaser or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the purchaser with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

62. As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity transfers a promised good or service to a purchaser or third-party beneficiary and when the purchaser pays for that good or service will be one year or less.

63. To meet the objective in paragraph 60 when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its purchaser at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the purchaser or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the purchaser would pay in cash for the goods or services when (or as) they transfer to the purchaser or third-party beneficiary. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the purchaser's credit risk).

64. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements with purchasers in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement with a purchaser.

Non-Cash Consideration

65. To determine the transaction price for binding arrangements in which a purchaser promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

66. If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone price of the goods or services promised to the purchaser or third-party beneficiary (or class of purchaser) in exchange for the consideration.

67. The fair value of the non-cash consideration may vary because of the form of the consideration. If the fair value of the non-cash consideration promised by a purchaser varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 55–57.

68. If a purchaser contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's fulfillment of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the purchaser.

Consideration Payable to a Purchaser

69. Consideration payable to a purchaser includes cash amounts that an entity pays, or expects to pay, to the purchaser (or to other parties that purchase the entity's goods or services from the purchaser). Consideration payable to a purchaser also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the purchaser). An entity shall account for consideration payable to a purchaser as a reduction of the transaction price and, therefore, of revenue unless the payment to the purchaser is in exchange for a distinct good or service (as described in paragraphs 25–29) that the purchaser transfers to the entity. If the consideration payable to a purchaser includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 49–57.

70. If consideration payable to a purchaser is a payment for a distinct good or service from the purchaser, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the purchaser exceeds the fair value of the distinct good or service that the entity receives from the purchaser, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the purchaser, it shall account for all of the consideration payable to the purchaser as a reduction of the transaction price.

71. Accordingly, if consideration payable to a purchaser is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

    (a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and

    (b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.

Step 4: Allocating the Transaction Price to Performance Obligations

72. **The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the purchaser or third-party beneficiary.**

73. To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the binding arrangement on a relative stand-alone price basis in accordance with paragraphs 75–79, except as specified in paragraphs 80–82 (for allocating discounts) and paragraphs 83–85 (for allocating consideration that includes variable amounts).

74. Paragraphs 75–85 do not apply if a binding arrangement has only one performance obligation. However, paragraphs 83–85 may apply if an entity promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 21(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Prices

75. To allocate the transaction price to each performance obligation on a relative stand-alone price basis, an entity shall determine the stand-alone price at the inception of the binding arrangement of the distinct good or service underlying each performance obligation in the binding arrangement and allocate the transaction price in proportion to those stand-alone prices.

76. The stand-alone price is the price at which an entity would provide a promised good or service separately to a purchaser. The best evidence of a stand-alone price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar purchasers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone price of that good or service.

77. If a stand-alone price is not directly observable, an entity shall estimate the stand-alone price at an amount that would result in the allocation of the transaction price meeting the allocation objective in paragraph 72. When estimating a stand-alone price, an entity shall consider all information (including entity-specific factors, information about the purchaser or class of purchaser, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

78. Suitable methods for estimating the stand-alone price of a good or service include, but are not limited to, the following:

    (a) Adjusted market assessment approach—an entity could evaluate the market in which it provides goods or services and estimate the price that a purchaser in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the other entities providing similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

    (b) Expected cost approach—an entity could forecast its expected costs of satisfying a performance obligation and, if applicable, add an appropriate margin for that good or service.

    (c) Residual approach—an entity may estimate the stand-alone price by reference to the total transaction price less the sum of the observable stand-alone prices of other goods or services promised in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 77, the stand-alone price of a good or service only if one of the following criteria is met:

        (i) The entity provides the same good or service to different purchasers (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone price is not discernible from past transactions or other observable evidence); or

        (ii) The entity has not yet established a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain).

79. A combination of methods may need to be used to estimate the stand-alone prices of the goods or services promised in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone prices. For example, an entity may use a residual approach to estimate the aggregate stand-alone price for those promised goods or services with highly variable or uncertain stand-alone prices and then use another method to estimate the stand-alone prices of

the individual goods or services relative to that estimated aggregate stand-alone price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone price of each promised good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction price at those estimated stand-alone prices would be consistent with the allocation objective in paragraph 72 and the requirements for estimating stand-alone prices in paragraph 77.

Allocation of a Discount

80. A purchaser receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone prices of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph 81 that the entire discount relates to only one or more, but not all, performance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all performance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone prices of the underlying distinct goods or services.

81. An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the binding arrangement if all of the following criteria are met:

    (a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

    (b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone prices of the goods or services in each bundle; and

    (c) The discount attributable to each bundle of goods or services described in paragraph 81(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.

82. If a discount is allocated entirely to one or more performance obligations in the binding arrangement in accordance with paragraph 81, an entity shall allocate the discount before using the residual approach to estimate the stand-alone price of a good or service in accordance with paragraph 78(c).

Allocation of Variable Consideration

83. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

    (a) One or more, but not all, performance obligations in the binding arrangement (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time); or

    (b) One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 21(b) (for example, the consideration promised for the second year of a two-year

cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

84. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 21(b) if both of the following criteria are met:

    (a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and

    (b) Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph 72 when considering all of the performance obligations and payment terms in the binding arrangement.

85. The allocation requirements in paragraphs 72–82 shall be applied to allocate the remaining amount of the transaction price that does not meet the criteria in paragraph 84.

Changes in the Transaction Price

86. After the inception of the binding arrangement, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

87. An entity shall allocate to the performance obligations in the binding arrangement any subsequent changes in the transaction price on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

88. An entity shall allocate a change in the transaction price entirely to one or more, but not all, performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 21(b) only if the criteria in paragraph 84 on allocating variable consideration are met.

89. An entity shall account for a change in the transaction price that arises as a result of a modification to a binding arrangement in accordance with paragraphs 17–20. However, for a change in the transaction price that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 86–88 to allocate the change in the transaction price in whichever of the following ways is applicable:

    (a) An entity shall allocate the change in the transaction price to the performance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction price is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 20(a).

    (b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 19, an entity shall allocate the change in the transaction price to the performance obligations in the modified binding arrangement (i.e., the

performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

90. **An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement with a purchaser if the entity expects to recover those costs.**

91. The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement with a purchaser that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).

92. Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the purchaser regardless of whether the binding arrangement is obtained.

93. As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement

94. **If the costs incurred in fulfilling a binding arrangement with a purchaser are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:**

    (a) The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);

    (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

    (c) The costs are expected to be recovered.

95. For costs incurred in fulfilling a binding arrangement with a purchaser that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

96. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:

    (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to the purchaser or third-party beneficiary);

    (b) Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary);

(c) Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools and equipment used in fulfilling the binding arrangement);

(d) Costs that are explicitly chargeable to the purchaser under the binding arrangement; and

(e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

97. An entity shall recognize the following costs as expenses when incurred:

(a) General and administrative costs (unless those costs are explicitly chargeable to the purchaser under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 96);

(b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;

(c) Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the binding arrangement (i.e., costs that relate to past performance); and

(d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Amortization and Impairment

98. An asset recognized in accordance with paragraph 90 or 94 shall be amortized on a systematic basis that is consistent with the transfer to the purchaser or third-party beneficiary of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under a specific anticipated binding arrangement (as described in paragraph 94(a)).

99. An entity shall update the amortization to reflect a significant change in the entity's expected timing of transfer to the purchaser or third-party beneficiary of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

100. An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph 90 or 94 exceeds:

(a) The remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less

(b) The costs that relate directly to providing those goods or services and that have not been recognized as expenses (see paragraph 96).

101. For the purposes of applying paragraph 100 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction price (except for the requirements in paragraphs 55–57 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the purchaser's credit risk.

102. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 90 or 94, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 17 and IPSAS 31). After applying the impairment test in paragraph 100, an entity shall

include the resulting carrying amount of the asset recognized in accordance with paragraph 90 or 94 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.

103. An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 100 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

Presentation

104. **When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the purchaser's payment. An entity shall present any unconditional rights to consideration separately as a receivable.**

105. If a purchaser pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e., a receivable), before the entity transfers a good or service to the purchaser or third-party beneficiary, the entity shall present the binding arrangement as a binding arrangement liability when the payment is made or the payment is due (whichever is earlier). A binding arrangement liability is an entity's obligation to transfer goods or services to a purchaser or third-party beneficiary for which the entity has received consideration (or an amount of consideration is due) from the purchaser.

106. If an entity performs by transferring goods or services to a purchaser or third-party beneficiary before the purchaser pays consideration or before payment is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41, *Financial Instruments*. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 113(b)).

107. A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement with a purchaser, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

108. This [draft] Standard uses the terms 'binding arrangement asset' and 'binding arrangement liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

109. **The objective of the disclosure requirements is for an entity 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 binding arrangements with purchasers that include performance obligations to transfer promised goods or services to purchasers or third-party beneficiaries. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

    (a) Its binding arrangements with purchasers (see paragraphs 113–123);

    (b) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements (see paragraphs 124–127); and

    (c) Any assets recognized from the costs to obtain or fulfill a binding arrangement with a purchaser in accordance with paragraph 90 or 94 (see paragraphs 128–129).

110. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

111. An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

112. In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45–47 of IPSAS 1, *Presentation of Financial Statements*, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

Binding Arrangements with Purchasers

113. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:

    (a) Revenue recognized from binding arrangements with purchasers that include performance obligations, which the entity shall disclose separately from its other sources of revenue; and

    (b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements with purchasers that include performance obligations, which the entity shall disclose separately from impairment losses from other binding arrangements.

Disaggregation of Revenue

114. An entity shall disaggregate revenue recognized from binding arrangements with purchasers that include performance obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG137–AG139 when selecting the categories to use to disaggregate revenue.

115. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each segment, if the entity applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

116. An entity shall disclose all of the following:

    (a) The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements with purchasers that include performance obligations, if not otherwise separately presented or disclosed;

    (b) Revenue recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and

    (c) Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

117. An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.

118. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:

    (a) Changes due to public sector combinations;

    (b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

    (c) Impairment of a binding arrangement asset;

    (d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and

    (e) A change in the time frame for a performance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Performance Obligations

119. An entity shall disclose information about its performance obligations in binding arrangements with purchasers, including a description of all of the following:

    (a) When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;

(b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 55–57);

(c) The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent);

(d) Obligations for returns, refunds and other similar obligations; and

(e) Types of warranties and related obligations.

120. In the public sector, an entity may be compelled by legislation or other governmental policy decisions to satisfy a performance obligation regardless of a purchaser's ability or intention to pay for the goods or services (see paragraph AG29). In addition to the information in paragraph 119, an entity shall disclose the following:

(a) A description of the legislation or policy decision which compels the entity to satisfy the performance obligation;

(b) The amount of revenue from these transactions that was recognized after application of paragraphs 13-15 of this [draft] Standard;

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable; and

(d) If the transaction price has been reduced after consideration of an implicit price concession from the application of AG31, an entity shall disclose the following:

(i) The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and

(ii) The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession as described in AG31.

Transaction Price Allocated to the Remaining Performance Obligations

121. An entity shall disclose the following information about its remaining performance obligations:

(a) The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 121(a), which the entity shall disclose in either of the following ways:

(i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or

(ii) By using qualitative information.

122. As a practical expedient, an entity need not disclose the information in paragraph 121 for a performance obligation if either of the following conditions is met:

(a) The performance obligation is part of a binding arrangement that has an original expected duration of one year or less; or

(b) The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph AG57.

123. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 122 and whether any consideration from binding arrangements with purchasers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 121. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 55–57).

Significant Judgments in the Application of this [draft] Standard

124. An entity shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue from binding arrangements with purchasers. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The timing of satisfaction of performance obligations (see paragraphs 125–126); and

(b) The transaction price and the amounts allocated to performance obligations (see paragraph 127).

Determining the Timing of Satisfaction of Performance Obligations

125. For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

126. For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a purchaser obtains control of promised goods or services.

Determining the Transaction Price and the Amounts Allocated to Performance Obligations

127. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) Assessing whether an estimate of variable consideration is constrained;

(c) Allocating the transaction price, including estimating stand-alone prices of promised goods or services and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and

(d) Measuring obligations for returns, refunds and other similar obligations.

Assets Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Purchaser

128. An entity shall describe both of the following:

    (a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a purchaser that includes performance obligations (in accordance with paragraph 90 or 94); and

    (b) The method it uses to determine the amortization for each reporting period.

129. An entity shall disclose all of the following:

    (a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a purchaser (in accordance with paragraph 90 or 94), by main category of asset (for example, costs to obtain binding arrangements with purchasers, pre-binding arrangement costs and setup costs); and

    (b) The amount of amortization and any impairment losses recognized in the reporting period.

Practical Expedients

130. If an entity elects to use the practical expedient in either paragraph 62 (about the existence of a significant financing component) or paragraph 93 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

131. **An entity shall apply this [draft] Standard for annual financial statements beginning on or after MM DD, YYYY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) and [draft] IPSAS [X] (ED 72) at the same time.**

132. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

133. For the purposes of the transition requirements in paragraphs 134–140:

    (a) The date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard; and

    (b) A completed binding arrangement is a binding arrangement for which the entity has transferred all of the goods or services identified in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*.

134. An entity shall apply this [draft] Standard using one of the following two methods:

    (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 136; or

(b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 138–140.

135. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 134(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

136. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 134(a):

(a) For completed binding arrangements, an entity need not restate binding arrangements that:

(i) Begin and end within the same annual reporting period; or

(ii) Are completed binding arrangements at the beginning of the earliest period presented.

(b) For completed binding arrangements that have variable consideration, an entity may use the transaction price at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 19–20. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the satisfied and unsatisfied performance obligations;

(ii) Determining the transaction price; and

(iii) Allocating the transaction price to the satisfied and unsatisfied performance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 121).

137. For any of the practical expedients in paragraph 136 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

(b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

138. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 134(b), the entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this [draft] Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).

139. An entity applying this [draft] Standard retrospectively in accordance with paragraph 134(b) may also use the practical expedient described in paragraph 136(c), either:

  (a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or

  (b) For all modifications to a binding arrangement that occur before the date of initial application.

  If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 137.

140. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 134(b):

  (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 9 and IPSAS 11; and

  (b) An explanation of the reasons for significant changes identified.

Withdrawal of Other Standards

141. This [draft] Standard supersedes the following Standards:

  (a) IPSAS 9, *Revenue from Exchange Transactions;* and

  (b) IPSAS 11, *Construction Contracts*.

  IPSAS 9 and IPSAS 11 remain applicable until [draft] IPSAS [X] (ED 70) is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of the [draft] IPSAS [X] (ED 70).

AG1. This application guidance is organized into the following categories:

(a) Objective (paragraphs AG2-AG4);

(b) Scope (paragraphs AG5-AG6);

(c) Definitions (paragraphs AG7-AG25);

(d) Identifying the Binding Arrangement (paragraphs AG26-AG30);

(e) Identifying Performance Obligations (paragraphs AG32-AG42);

(f) Performance Obligations Satisfied Over Time (paragraphs AG43-AG54);

(g) Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (paragraphs AG55-AG60);

(h) Sale with a Right of Return (paragraphs AG61-AG68);

(i) Transactions with Components within the Scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* (paragraphs AG69-AG70);

(j) Warranties (paragraphs AG71-AG76);

(k) Principal Versus Agent Considerations (paragraphs AG77-AG85);

(l) Purchaser Options for Additional Goods or Services (paragraphs AG86-AG90);

(m) Determination of Stand-alone Price (paragraph AG91);

(n) Purchasers' Unexercised Rights (paragraphs AG92-AG95);

(o) Non-refundable Upfront Fees (and Some Related Costs) (paragraphs AG96-AG99);

(p) Licensing (paragraphs AG100-AG113);

(q) Repurchase Agreements (paragraphs AG114-AG126);

(r) Consignment Arrangements (paragraphs AG127-AG128);

(s) Bill-and-Hold Arrangements (paragraphs AG129-AG132);

(t) Purchaser Acceptance (paragraphs AG133-AG136);

(u) Disclosure of Disaggregated Revenue (paragraphs AG137-AG139); and

(v) Subsequent Measurement of Non-Contractual Receivables (paragraphs AG140-AG141)

Objective (see paragraph 1)

AG2. To meet the objective in paragraph 1, this [draft] Standard establishes principles and requirements for how an entity:

(a) Recognizes revenue to depict the transfer of promised goods or services to purchasers or third-party beneficiaries in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services;

(b) Presents information about revenue and cash flows in the financial statements; and

(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of revenue and cash flows arising from binding arrangements.

AG3. An entity shall consider the terms of the binding arrangement and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to binding arrangements with similar characteristics and in similar circumstances.

AG4. This [draft] Standard specifies the accounting for an individual binding arrangement with a purchaser that includes performance obligations. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of binding arrangements (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual binding arrangements (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Scope (see paragraphs 3-6)

AG5. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for revenue arising from binding arrangements with performance obligations to transfer goods or services to purchasers or third-party beneficiaries. Therefore, the definitions of "*binding arrangement", "performance obligation", "purchaser", "revenue", and "third-party beneficiary"* in paragraph 7 establish the key elements in applying the scope of the [draft] Standard.

AG6. This [draft] Standard does not address revenue arising from binding arrangements that do not include performance obligations. Such transactions are addressed in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Definitions (see paragraph 7)

Binding Arrangements

AG7. The [draft] Standard is underpinned by the definition of a binding arrangement, being an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. In the public sector an arrangement is enforceable when the entity and the purchaser are both able to enforce their respective rights and obligations through legal or equivalent means.

AG8. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means).

AG9. For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system is required.

AG10. An entity considers the substance rather than the legal form of an arrangement in determining whether it is an enforceable binding arrangement. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both purchaser and entity (resource recipient); and

(b) Remedies for non-performance by the entity which can be enforced by the purchaser through legal or equivalent means.

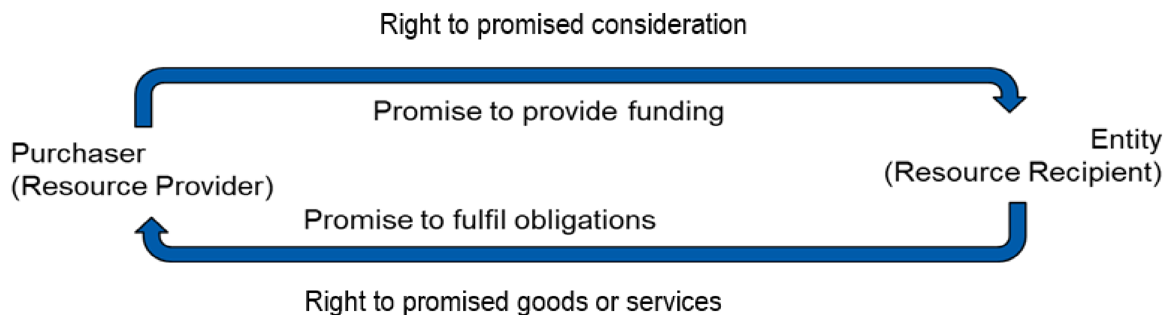
AG11. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives).

AG12. To be within the scope of this [draft] Standard the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG13 - AG24).

Enforceability

AG13. A key characteristic of a binding arrangement is the ability of both parties have and are able to enforce both the rights and obligations conferred on them in the arrangement. That is, the entity receiving the consideration must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the purchaser) must be able to enforce fulfillment of performance obligations (the promise to transfer specific goods and services) by the entity receiving the consideration.

AG14. These relationships are illustrated in the diagram below:



AG15. While it is important that the entity receiving the funding can enforce payment of those funds, when they have a right to the funds, for the purposes of this [draft] Standard it is the purchaser's ability to compel the entity to deliver goods and services that creates the basis for the five-step revenue recognition model provided for in this [draft] Standard.

AG16. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority, cabinet or ministerial directives, as well as judicial rulings and case law precedence.

AG17. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to transfer goods or services.

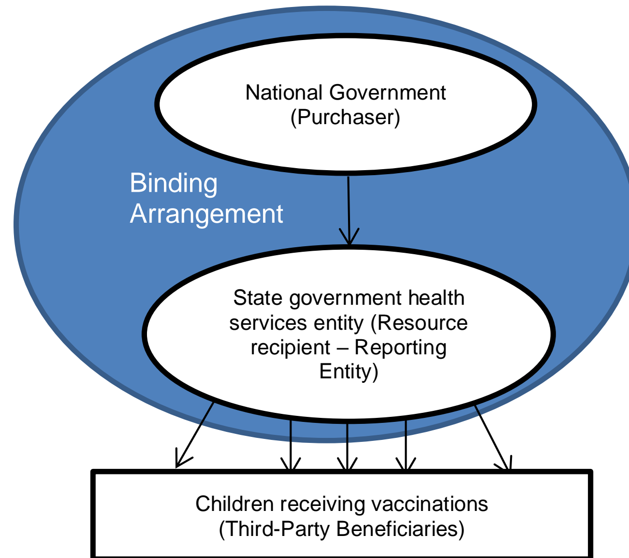
AG18. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of performance obligations by an entity, this may result in a valid enforcement mechanism.

AG19. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet or ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to transfer goods or services may be enforceable. The key determining factor is that the purchaser must be able to enforce the promises made in the entity's binding arrangement. The purchaser must have the ability and authority to compel the entity to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

AG20. An entity may feel compelled to deliver on the performance obligations in a binding arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the purchaser to provide such funding. However, if the entity was presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in funding if other binding arrangements are breached, then the reduction in funding could be considered a valid enforcement mechanism.

AG21. When determining if a reduction of future funding would be an enforcement mechanism the entity shall apply a judgment based on the facts and circumstances. Key factors that may indicate the purchaser would reduce future funding in the event of a breach of promises made in another binding arrangement are the purchaser's ability to reduce future finding and its past history of doing so.

AG22. Three-party arrangements are common in the public sector – purchaser, resource recipient (reporting entity in this [draft] Standard) and third-party beneficiaries. It is important to recognize that in these three-party arrangements, the third-party beneficiaries do not have any rights to force the entity to deliver goods and services because they are not a party to the binding arrangement. However, for these three-party arrangements to be within the scope of this [draft] Standard the purchaser must have the ability to force the entity to deliver goods and services to third-party beneficiaries. In these three-party arrangements the resource recipient (reporting entity) is not an agent of the purchaser because the resource recipient gains control of the consideration from the purchaser and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram.



AG23. A statement of intent or public announcement by a purchaser (e.g. government) to spend money or deliver goods and services in a certain way is not an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a purchaser and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive obligation) under IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

AG24. In determining whether an arrangement is enforceable, it is necessary to consider any past history of enforcement. If past experience with a purchaser indicates that the purchaser never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and therefore the arrangement is not enforceable. However, if the entity has no experience with the purchaser, or has not previously breached any terms that would prompt the purchaser to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the purchaser would enforce the terms, and therefore the arrangement is considered enforceable.

Purchaser

AG25. For public sector specific transactions, the purchaser is the party that pays consideration for the goods and services set out in a binding arrangement but is not necessarily the party that receives those goods and services. In the case of a three-party arrangement (discussed below), the purchaser has a binding arrangement with and pays consideration to the entity to deliver goods and services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over the age of 55, the central government is the purchaser and the citizens are the third-party beneficiaries. The purchaser can enforce delivery of those goods and services or seek recourse from the entity if the promises in the binding arrangement are not fulfilled.

Recognition (see paragraphs 8-44)

Step 1: Identifying the Binding Arrangement (see paragraphs 8-20)

Economic Substance

AG26. An entity shall determine whether a transaction has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if:

(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred: or

(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The differences in (a) and (b) are significant relative to the fair value of the assets exchanged.

AG27. For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The results of these analyses may be clear without an entity having to perform detailed calculations.

AG28. For the purposes of this [draft] Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 8(e)

AG29. In some binding arrangements, entities are compelled by legislation to provide certain goods and services (such as water and electricity) to all citizens, regardless of whether the citizens have the intention or ability to pay for those goods or services. In these circumstances, when payment of the consideration, less any price concession, is not probable for delivery of the good or service to certain groups of citizens, the criterion for identifying a binding revenue arrangement in paragraph 8(e) is not met.

AG30. For goods and services provided to citizens in a binding arrangement in exchange for agreed amounts of consideration, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraphs 13 - 15 of this [draft] Standard.

AG31. This [draft] Standard typically measures revenue based on the transaction price to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, credits, price concessions, incentives, performance bonuses, penalties and similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the purchaser than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 46 and 51(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 8(e).

Step 2: Identifying Performance Obligations (see paragraphs 21-29)

AG32. This [draft] Standard requires revenue to be recognized as or when a performance obligation is fulfilled.

AG33. Paragraph 21 requires an entity to identify any performance obligations when a binding arrangement is entered into (Step 2 of the revenue recognition model). A performance obligation is defined as a promise [by the entity] in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiaries either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser.

AG34. The key features of this definition of a performance obligation are that there must be a transfer of these goods and services to the purchaser or a third-party beneficiary. If goods or services (or a bundle of goods or services) are not transferred, the transaction is outside the scope of this [draft] Standard and would be accounted for under [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

AG35. In the public sector, identifying performance obligations may require significant judgment. A necessary condition for identifying a performance obligation is that the promise must be sufficiently specific to be able to determine when that performance obligation is fulfilled. In identifying performance obligations which are sufficiently specific an entity considers the following factors:

(a) The nature or type of the goods or services;

(b) The cost or value of the goods or services;

(c) The quantity of the goods or services; and

(d) The period over which the goods or services must be transferred.

AG36. The existence of performance indicators in relation to the delivery of goods and services does not necessarily indicate the existence of a performance obligation as defined in the [draft] Standard. A performance obligation is a promise within a binding arrangement to transfer goods or services or a bundle of goods or services to the purchaser or third-party beneficiary based on the terms and conditions agreed between two parties.

AG37. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Goods and Services

AG38. A good or service promised in a binding arrangement is distinct if the following two criteria are both met (see paragraph 26):

(a) The purchaser can derive the economic benefit or service potential from the good or service either on its own or together with other resources that are readily available to the purchaser (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to transfer the good or service to the purchaser is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG39. When identifying a performance obligation, not only does the promised transfer of the goods and services in a promise need to be separately identifiable but the promises in a binding arrangement must also be sufficiently specific from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.

Transfer of Goods and Services

AG40. The second requirement of a performance obligation is that there must be a transfer of goods and services to the purchaser or third-party beneficiary. If there is no requirement to transfer control of goods or services, the transaction is outside the scope of this [draft] Standard and would be accounted for under [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

AG41. This [draft] Standard requires that revenue is recognized when an entity satisfies a performance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services.

AG42. Paragraph 7 provides indicators of control which include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Step 5: Satisfaction of Performance Obligations (see paragraphs 30-44)

Performance Obligations Satisfied Over Time (see paragraph 34)

AG43. Paragraph 34 provides that a performance obligation is satisfied over time if one of the following criteria is met:

(a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG44–AG45);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser controls as the asset is created or enhanced (see paragraph AG46); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG47–AG49) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG50–AG54).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Entity's Performance (see paragraph 34(a))

AG44. For some types of performance obligations, the assessment of whether a purchaser receives the economic benefit or service potential of an entity's performance as the entity performs and

simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

AG45. For other types of performance obligations, an entity may not be able to readily identify whether a purchaser simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfill the remaining performance obligation to the purchaser. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining performance obligation to another entity; and

(b) Presume that another entity fulfilling the remainder of the performance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance obligation were to transfer to another entity.

Purchaser Controls the Asset as it is Created or Enhanced

AG46. In determining whether a purchaser controls an asset as it is created or enhanced in accordance with paragraph 34(b), an entity shall apply the requirements for control in paragraphs 30–33 and 37. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Performance does not Create an Asset with an Alternative Use (see paragraph 34(c))

AG47. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 34(c) and 35, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different purchaser. The possibility of the binding arrangement with the purchaser being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG48. A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a purchaser could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG49. A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or

would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a purchaser or are located in remote areas.

Right to Payment for Performance Completed to Date (see paragraph 34(c))

AG50. In accordance with paragraphs 34(c) and 36, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the purchaser or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the performance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the purchaser (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG51. An entity's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, an entity will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether it has a right to payment for performance completed to date, an entity shall consider whether it would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.

AG52. In some binding arrangements, a purchaser may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the purchaser might not have any right to terminate the binding arrangement. If a purchaser acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a purchaser fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser the goods or services promised in the binding arrangement and require the purchaser to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to payment for performance completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the purchaser to perform its obligations (which include paying the promised consideration).

AG53. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or

legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

(a) Legislation, administrative practice or legal precedent confers upon the entity a right to payment for performance to date even though that right is not specified in the binding arrangement with the purchaser;

(b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) An entity's customary practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment in similar binding arrangements, an entity would continue to have a right to payment to date if, in the binding arrangement with the purchaser, its right to payment for performance to date remains enforceable.

AG54. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a purchaser, the payment schedule might not necessarily provide evidence of the entity's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the purchaser is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (see paragraphs 34-36)

AG55. Methods that can be used to measure an entity's progress towards complete satisfaction of a performance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG56–AG58); and

(b) Input methods (see paragraphs AG59–AG60).

Output Methods

AG56. Output methods recognize revenue on the basis of direct measurements of the value to the purchaser of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the purchaser. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the purchaser that are not included in the measurement of the output.

AG57. As a practical expedient, if an entity has a right to consideration from a purchaser in an amount that corresponds directly with the value to the purchaser of the entity's performance completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

AG58. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

Input Methods

AG59. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognize revenue on a straight-line basis.

AG60. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a purchaser. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 38, do not depict the entity's performance in transferring control of goods or services to the purchaser. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

(a) When a cost incurred does not contribute to an entity's progress in satisfying the performance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the performance obligation).

(b) When a cost incurred is not proportionate to the entity's progress in satisfying the performance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a performance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:

(i) The good is not distinct;

(ii) The purchaser is expected to obtain control of the good significantly before receiving services related to the good;

(iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and

(iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG77–AG85).

Measurement (see paragraphs 45-85)

Step 3: Determining the Transaction Price (see paragraphs 45-71)

Sale with a Right of Return

AG61. In some binding arrangements, an entity transfers control of a product to a purchaser and also grants the purchaser the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) A full or partial refund of any consideration paid;

(b) A credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) Another product in exchange.

AG62. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

(a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned);

(b) A refund liability; and

(c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from purchasers on settling the refund liability.

AG63. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance obligation in addition to the obligation to provide a refund.

AG64. An entity shall apply the requirements in paragraphs 46–71 (including the requirements for constraining estimates of variable consideration in paragraphs 55–57) to determine the amount of consideration to which the entity expects to be entitled (i.e., excluding the products expected to be returned). For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue when it transfers products to purchasers or third-party beneficiaries but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognized.

AG65. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue).

AG66. An asset recognized for an entity's right to recover products from a purchaser on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.

AG67. Exchanges by purchasers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this [draft] Standard.

AG68. Binding arrangements in which a purchaser may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG71–AG76.

Transactions with Components within the Scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*

AG69. This [draft] Standard typically requires an entity 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. This is based on the rebuttable presumption that the transaction price is wholly related to the transfer of goods or services.

AG70. In the public sector, 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. Such transactions may rebut the presumption that the transaction price is wholly related to the transfer of goods or services, as a portion of the consideration relates to helping the entity achieve its objectives. To demonstrate that this presumption is rebutted, 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. When the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this [draft] Standard. The remainder of the transaction price shall be accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Step 4: Allocating the Transaction Price to Performance Obligations (see paragraphs 72 to 89)

Warranties

AG71. It is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a purchaser with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the purchaser with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG72. If a purchaser has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a performance obligation in accordance with paragraphs 21–29 and allocate a portion of the transaction price to that performance obligation in accordance with paragraphs 72–85.

AG73. If a purchaser does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG74. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

(a) Whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance obligation because such requirements typically exist to protect purchasers from the risk of purchasing defective products.

(b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

(c) The nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation.

AG75. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a performance obligation. Therefore, an entity shall allocate the transaction price to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

AG76. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centers and hospitals in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser or third-party beneficiary using a product for its intended purpose. Similarly, an entity's promise to indemnify the purchaser for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a performance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

Principal versus Agent Considerations

AG77. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser. A specified good or service is a distinct good or service (or a distinct

bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 26–29). If a binding arrangement with a purchaser includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AG78. To determine the nature of its promise (as described in paragraph AG77), the entity shall:

(a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph 25)); and

(b) Assess whether it controls (as described in paragraph 32) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG79. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

AG80. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

(a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.

(b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.

(c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if an entity provides a significant service of integrating goods or services (see paragraph 28(a)) provided by another party into the specified good or service for which the purchaser has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

AG81. When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG82. An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of

consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG83. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG79) include, but are not limited to, the following:

(a) The entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting purchaser specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

(b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the purchaser (for example, if the purchaser has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a purchaser, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.

(c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the purchaser pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

AG84. The indicators in paragraph AG83 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

AG85. If another entity assumes the entity's performance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the performance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that performance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a performance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Purchaser Options for Additional Goods or Services

AG86. Purchaser options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, purchaser award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG87. If, in a binding arrangement, an entity grants a purchaser the option to acquire additional goods or services, that option gives rise to a performance obligation in the binding arrangement only if the

option provides a material right to the purchaser that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of purchaser in that geographical area or market). If the option provides a material right to the purchaser, the purchaser in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.

AG88. If a purchaser has the option to acquire an additional good or service at a price that would reflect the stand-alone price for that good or service, that option does not provide the purchaser with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this [draft] Standard only when the purchaser exercises the option to purchase the additional goods or services.

AG89. Paragraph 73 requires an entity to allocate the transaction price to performance obligations on a relative stand-alone price basis. If the stand-alone price for a purchaser’s option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the purchaser would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the purchaser could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG90. If a purchaser has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Determination of Stand-alone Price

AG91. In the public sector, the determination of a stand-alone price for a performance obligation in accordance with paragraph 76 may be challenging in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone price is estimated based on the amount the purchaser would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone price of the goods or services cannot be estimated from market information, the entity estimates the stand-alone price using the expected cost approach, as noted in paragraph 78(b).

Purchasers’ Unexercised Rights

AG92. In accordance with paragraph 105, upon receipt of a prepayment from a purchaser, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that binding arrangement liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.

AG93. A purchaser's non-refundable prepayment to an entity gives the purchaser a right to receive a good or service in the future (and obliges the entity to stand ready to transfer a good or service). However, purchasers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG94. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the purchaser. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the purchaser exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 55–57 on constraining estimates of variable consideration.

AG95. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a purchaser's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

Non-refundable Upfront Fees (and some Related Costs)

AG96. In some binding arrangements, an entity charges a purchaser a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a health care membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG97. To identify performance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 24). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the purchaser the option to renew the binding arrangement and that option provides the purchaser with a material right as described in paragraph AG87.

AG98. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 21–29.

AG99. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 24). If those setup activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG60. That is because the costs of setup activities do not depict the transfer of services to the purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 94.

Other Specific Application Issues

Licensing

AG100. A license establishes a purchaser's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

(b) Motion pictures, music and other forms of media and entertainment;

(c) Franchises; and

(d) Patents, trademarks and copyrights.

AG101. In addition to a promise to grant a license (or licenses) to a purchaser, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph 23). As with other types of binding arrangements, when a binding arrangement with a purchaser includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 21–29 to identify each of the performance obligations in the binding arrangement.

AG102. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 25–29, an entity shall account for the promise to grant a license and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A license that the purchaser or third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the purchaser or third-party beneficiary to access content).

AG103. If the license is not distinct, an entity shall apply paragraphs 30–37 to determine whether the performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

AG104. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate performance obligation, an entity shall determine whether the license transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the purchaser with either:

(a) A right to access the entity's intellectual property as it exists throughout the license period; or

(b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Entity's Promise

AG105. The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the purchaser reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the purchaser has rights (see paragraphs AG106 and AG107);

(b) The rights granted by the license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG105(a); and

(c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 24).

AG106. Factors that may indicate that a purchaser could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the purchaser related to the intellectual property to which the purchaser has rights may also indicate that the purchaser could reasonably expect that the entity will undertake such activities.

AG107. An entity's activities significantly affect the intellectual property to which the purchaser has rights when either:

(a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) The ability of the purchaser to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

Accordingly, if the intellectual property to which the purchaser has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG108. If the criteria in paragraph AG105 are met, an entity shall account for the promise to grant a license as a performance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 34(a)). An entity shall apply paragraphs 38–44 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

AG109. If the criteria in paragraph AG105 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the purchaser. This means that the purchaser can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 37 to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

AG110. An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its performance obligation at a point in time or over time.

(b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the purchaser that the license transferred meets the specifications of the license promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG111. Notwithstanding the requirements in paragraphs 55–58, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

(b) The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG112. The requirement for a sales-based or usage-based royalty in paragraph AG111 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the purchaser would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG113. When the requirement in paragraph AG112 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG111. When the requirement in paragraph AG112 is not met, the requirements on variable consideration in paragraphs 49–58 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG114. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the purchaser, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG115. Repurchase agreements generally come in three forms:

(a) An entity's obligation to repurchase the asset (a forward);

(b) An entity's right to repurchase the asset (a call option); and

(c) An entity's obligation to repurchase the asset at the purchaser's request (a put option).

A Forward or a Call Option

AG116. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a purchaser does not obtain control of the asset because the purchaser is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

(a) A lease in accordance with IPSAS 13, *Leases*[4] if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or

(b) A financing arrangement in accordance with paragraph AG118 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

AG117. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG118. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the purchaser. The entity shall recognize the difference between the amount of consideration received from the purchaser and the amount of consideration to be paid to the purchaser as interest and, if applicable, as processing or holding costs (for example, insurance).

AG119. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

AG120. If an entity has an obligation to repurchase the asset at the purchaser's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the purchaser has a significant economic incentive to exercise that right. The purchaser's exercising of that right results in the purchaser effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the

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[4] The IPSASB has a project to replace IPSAS 13, Leases. Refer to Exposure Draft (ED) 64, *Leases*.

purchaser has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IPSAS 13.

AG121. To determine whether a purchaser has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the purchaser has a significant economic incentive to exercise the put option.

AG122. If the purchaser does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG61–AG68.

AG123. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG118.

AG124. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the purchaser does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG61–AG68.

AG125. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG126. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

AG127. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG128. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a purchaser of the dealer or until a specified period expires;

(b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and

(c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Bill-and-Hold Arrangements

AG129. A bill-and-hold arrangement is a binding arrangement under which an entity bills a purchaser for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may

request an entity to enter into such a binding arrangement because of the purchaser's lack of available space for the product or because of delays in the purchaser's production schedules.

AG130. An entity shall determine when it has satisfied its performance obligation to transfer a product by evaluating when a purchaser obtains control of that product (see paragraph 37). For some binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a purchaser may obtain control of a product even though that product remains in an entity's physical possession. In that case, the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the purchaser over the purchaser's asset.

AG131. In addition to applying the requirements in paragraph 37, for a purchaser to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the purchaser has requested the arrangement);

(b) The product must be identified separately as belonging to the purchaser;

(c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and

(d) The entity cannot have the ability to use the product or to direct it to another purchaser.

AG132. If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 21–29 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 72–85.

Purchaser Acceptance

AG133. In accordance with paragraph 37(e), a purchaser's acceptance of an asset may indicate that the purchaser has obtained control of the asset. Purchaser acceptance clauses may allow the purchaser to cancel a binding arrangement or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the purchaser obtains control of a good or service.

AG134. If an entity can objectively determine that control of a good or service has been transferred to the purchaser in accordance with the agreed-upon specifications in the binding arrangement, then purchaser acceptance is a formality that would not affect the entity's determination of when the purchaser has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of purchaser acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognized before the purchaser accepts the asset, the entity still must consider whether there are any remaining

performance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

AG135. However, if an entity cannot objectively determine that the good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the purchaser has obtained control until the entity receives acceptance by the purchaser. That is because in that circumstance the entity cannot determine that the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from the good or service.

AG136. If an entity delivers products to a purchaser or third-party beneficiary for trial or evaluation purposes and the purchaser is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the purchaser until either the purchaser accepts the product or the trial period lapses.

Disclosure (see paragraphs 109-130)

Disclosure of Disaggregated Revenue

AG137. Paragraph 114 requires an entity to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements with purchasers. Some entities may need to use more than one type of category to meet the objective in paragraph 114 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG138. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraphs AG138(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG139. Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) Type of good or service (for example, major product lines);

(b) Geographical region (for example, country or region);

(c) Market or type of purchaser (for example, government and non-government purchasers);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements);

(f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);

(g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and

(h) Revenue earned from the provision of goods or services to third-party beneficiaries.

Subsequent Measurement of Receivables

AG140. After initial recognition, an entity shall subsequently measure a receivable:

(a) Within the scope of IPSAS 41, *Financial Instruments*, as a financial asset in accordance with IPSAS 41; or

(b) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.

AG141. Where a receivable as described in paragraph AG140(b) does not satisfy the requirements in paragraph 40 of IPSAS 41, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 50 is amended and paragraph 153O is added. New text is underlined and deleted text is struck through.

…

Overall Considerations

…

Offsetting

…

50. ~~IPSAS 9, *Revenue from Exchange Transactions*,~~ [Draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, ~~defines revenue and~~ requires ~~it~~ an entity to ~~be~~ measured revenue from binding arrangements with purchasers at the ~~fair value of consideration received or receivable, taking into account the~~ amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognized reflects any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ~~ordinary~~ activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

…

(a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the ~~proceeds~~ amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

(c) …

…

Effective Date

…

153O. Paragraph 50 was amended by [draft] IPSAS [X] (ED 70) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month], [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 1.

Illustrative Financial Statement Structure

…

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	**20X1**
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue ~~from~~ with ~~exchange transactions~~ performance obligations	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	X	X
Expenses		
General public services	(X)	(X)
…	…	…
Total expenses	(X)	(X)
Share of surplus of associates[*]	X	X
Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Non-controlling interests	X	X
	X	X

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	**20X1**
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X

* This means the share of associates' surplus attributable to owners of the associates, i.e., it is after tax and non-controlling interests in the associates.

	20X2	20X1
Revenue ~~from exchange transactions~~with performance obligations	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	X	X
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
…	…	…
Total Expenses	(X)	(X)
Share of surplus of associates	X	X
Surplus/(deficit) for the period	(X)	X
Attributable to:		
Owners of the controlling entity	(X)	X
Non-controlling interest	(X)	X
	(X)	X

…

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

IE7. Applying [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, ~~paragraph 28 of IPSAS 9, *Revenue from Exchange Transactions*~~, Entity B recognizes revenue on September 1, 20X2, the date on which it transfers the goods to the customer.

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 2, 11, 28, 39 and 48 are amended, paragraph 51F is added and paragraph 28 is deleted. New text is underlined and deleted text is struck through.

…

Scope

…

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:

   (a) ~~Work-in-progress arising under construction contracts, including directly related service contracts (see IPSAS 11, *Construction Contracts*);~~ [Deleted]

   (b) …

…

Definitions

…

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. ~~In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue. (guidance on recognition of revenue can be found in IPSAS 9, *Revenue from Exchange Transactions*.)~~ Costs incurred to fulfill a binding arrangement with a purchaser that do not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

…

Measurement of Inventories

…

Cost of Inventories of a Service Provider

28. ~~To the extent that service providers have inventories (except those referred to in paragraph 2(d)), they measure them at the costs of their production. These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included, but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.~~ [Deleted]

…

Net Realizable Value

…

39. Inventories are usually written down to net realizable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses, and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment. ~~Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.~~

…

Disclosure

…

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods. ~~The inventories of a service provider may be described as work-in-progress.~~

…

Effective Date

…

51F. Paragraphs 2, 11, 39 and 48 were amended and paragraph 28 was deleted by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 5, 13, 78 and 81 are amended and paragraph 101H is added. New text is underlined and deleted text is struck through.

…

Scope

…

5. This Standard applies to accounting for investment property, including (a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and to (b) the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in IPSAS 13, *Leases*, including:

   (a) …

   (b) Recognition of lease revenue from investment property (see also ~~IPSAS 9, *Revenue from Exchange Transactions*~~ [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*);

   (c) …

…

Definitions

…

Investment Property

…

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) …

(b) ~~Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).~~ [Deleted]

(c) …

…

Disposals

…

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. ~~In determining t~~ The date of disposal for investment property~~, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the Implementation Guidance to IPSAS 9~~ is the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IPSAS [X] (ED 70). IPSAS 13 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

…

81. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an investment property is ~~recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, using the effective interest method~~ determined in accordance with the requirements for determining the transaction price in paragraphs 46–71 of [draft] IPSAS [X] (ED 70). Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [X] (ED 70).

…

Effective Date

…

101H. Paragraphs 5, 13, 78 and 81 were amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 17, *Property, Plant and Equipment*

Paragraphs 83A, 84, and 87 are amended and paragraph 107P is added. New text is underlined and deleted text is struck through.

…

Derecognition

…

83A. However, an entity that, in the course of its ~~ordinary~~ activities, routinely ~~sells~~ provides items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The ~~proceeds~~ amount of consideration from the ~~sale~~ disposal of such assets shall be recognized as revenue in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

84. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). ~~In determining t~~ The date of disposal of an item~~, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods~~ of property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IPSAS [X] (ED 70). IPSAS 13 applies to disposal by a sale and leaseback.

…

87. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is ~~recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable~~ determined in accordance with the requirements for determining the transaction price in paragraphs 46–71 of [draft] IPSAS [X] (ED 70). Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [X] (ED 70).

…

Effective Date

…

107P. Paragraphs 83A, 84 and 87 were amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 39 is amended and paragraph 76F is added. New text is underlined and deleted text is struck through.

…

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

…

Segment Assets, Liabilities, Revenue, and Expense

…

39. Some guidance for cost allocation can be found in other IPSAS. For example, IPSAS 12, *Inventories*, provides guidance for attributing and allocating costs to inventories, and ~~IPSAS 11, *Construction Contracts*~~ [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, provides guidance for attributing and allocating costs to ~~contracts~~ binding arrangements. That guidance may be useful in attributing and allocating costs to segments.

…

Effective Date

…

76F. Paragraph 39 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 13 and 15 are amended and paragraph 111J is added. New text is underlined and deleted text is struck through.

…

Scope

…

Other Exclusions from the Scope of the Standard

…

13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:

    (a) ~~Construction contracts (see IPSAS 11, *Construction Contracts*); and~~[Deleted]

    (b) …~~,~~; and

    (c) Revenue from binding arrangements with purchasers (see [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*). However, as [draft] IPSAS [X] (ED 70) contains no specific requirements to address binding arrangements with purchasers that are, or have become, onerous, this [draft] Standard applies to such cases.

…

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70) identifies the circumstances in which revenue ~~from exchange transactions~~ arising from binding arrangements with a purchaser that include performance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognized, and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70).

…

Effective Date

…

111J. Paragraphs 13 and 15 were amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

…

Recognition

…

A Single Guarantee

...

Analysis

…

Conclusion

The guarantee is subsequently measured at the higher of (a) the best estimate of the obligation (see paragraphs 22, 31 and 109), and (b) the amount initially recognized less, when appropriate, the cumulative amount of revenue ~~amortization~~ in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

…

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraph 2 is amended and paragraph 82J is added. New text is underlined and deleted text is struck through.

…

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except for:

   (a) …

   (b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*);~~ Binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement that are recognized in accordance with [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*;

   (c) …

…

Effective Date

…

82J. Paragraph 2 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 24, *Presentation of Budget Information in Financial Statements*

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 24.

…

Additional Column Approach

For Government YY for the Year Ended December 31, 20XX

Both Annual Budget ~~A~~and Financial Statements Adopt Accrual Basis

(Illustrated only for Statement of Financial Performance. Similar presentation would be adopted for other financial statements.)

Actual 20XX-1	(in currency units)	**Actual 20XX**	**Final Budget 20XX**	**Original Budget 20XX**	*Difference: Original Budget and Actual* [*]
	Revenue				
X	Taxes	X	X	X	X
X	Fees, fines, penalties, and licenses	X	X	X	X
X	Revenue ~~from exchange transactions~~ with performance obligations	X	X	X	X
X	Transfers from other governments	X	X	X	X
X	Other revenue	X	X	X	X
X	**Total revenue**	**X**	**X**	**X**	**X**
	Expenses				
(…)	…	(…)	(…)	(…)	(…)
(X)	**Total expenses**	**(X)**	**(X)**	**(X)**	**(X)**
X	Share of surplus of associates	X	X	X	X
X	**Surplus/(deficit) for the period**	**X**	**X**	**X**	**X**
	Attributable to:				
X	Owners of the controlling entity	X	X	X	X
X	Non-controlling interest	X	X	X	X
X		**X**	**X**	**X**	**X**

…

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraph 2 is amended and paragraph 126L is added. New text is underlined and deleted text is struck through.

…

Scope

…

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:

[*] The "Difference…" column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(a) …

(b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*)~~ Binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement that are recognized in accordance with [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*;

(c) …

…

Effective Date

…

126L. Paragraph 2 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph AG46 is amended and paragraph 60F is added. New text is underlined and deleted text is struck through.

Effective Date

…

60F. Paragraph AG46 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Application Guidance

…

AG46. Except as required by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, a ~~A~~ contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.

Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 29.

…

BC17. Where the financial guarantee contract is entered into for consideration, the IPSASB considered whether the amount of such consideration should be deemed to be a fair value. Application Guidance in IAS 39 states that "the fair value of a financial instrument on initial recognition is normally the transaction price." In the public sector the IPSASB considered that in many cases the transaction price related to a financial guarantee contract will not reflect fair value and that recognition at such an amount would be an inaccurate and misleading reflection of the issuer's exposure to financial risk. The IPSASB concluded that where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and therefore represents a fair value. If the consideration does represent a fair value, the IPSASB concluded that entities should recognize the financial guarantee at the amount of the consideration and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized, less, when appropriate, the cumulative amount of revenue ~~amortization~~ recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. Where the transaction price is not a fair value, an entity should be required to determine measurement at initial recognition in the same way as if no consideration had been paid.

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 6, 26, 113, 115 and AG6 are amended and paragraph 132K is added. New text is underlined and deleted text is struck through.

…

Scope

…

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

   (a) Intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~IPSAS 11, *Construction Contracts*, and~~ IPSAS 12, *Inventories*);

   …

   (e) …;~~ and~~

   (f) …; and

   (g) Assets arising from binding arrangements that are recognized in accordance with [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

…

26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

    (a) The definition of an intangible asset (see paragraphs 17–25); and

    (b) The recognition criteria (see paragraphs 28–30).

    This requirement applies to the cost measured at recognition (the cost incurred initially to acquire ~~in an exchange transaction~~ or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a revenue ~~non-exchange~~ transaction without performance obligations) and those incurred subsequently to add to, replace part of, or service it.

Retirements and Disposals

…

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a ~~non-exchange~~ revenue transaction without performance obligations). ~~In determining t~~ The date of disposal of ~~such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods~~ an intangible asset is the date that the recipient obtains control of that asset in accordance with either the requirements for determining when a performance obligation is satisfied in [draft] IPSAS [X] (ED 70) or a present obligation is settled in [draft] IPSAS [X] (ED 71). IPSAS 13, *Leases* applies to disposal by a sale and leaseback.

…

115. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an intangible asset is ~~recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable~~ determined in accordance with the requirements for determining the transaction price in paragraphs 46–71 of [draft] IPSAS [X] (ED 70). Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [X] (ED 70).

…

Application Guidance

…

AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~IPSAS 11 and~~ IPSAS 12) or leases that fall within the scope of IPSAS 13. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Application Guidance. When a website is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.

Effective Date

…

132K. Paragraphs 6, 26, 113, 115 and AG6 were amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Amendments to IPSAS 32, *Service Concession Arrangements*

Paragraphs 26, 30 and AG56 are amended and paragraph 36E is added. New text is underlined and deleted text is struck through.

Grant of a Right to the Operator Model (see paragraphs AG47–AG49)

…

26. Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a revenue transaction with performance obligations~~that generates revenue~~. As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognize revenue from the exchange immediately. Instead, a liability is recognized for any portion of the revenue that is not yet earned. The revenue is recognized according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognized.

…

Other Revenues (see paragraphs AG55 – AG64)

30. The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

…

Effective Date

…

36E. Paragraph 30 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

….

Appendix B

Application Guidance

This Appendix is an integral part of IPSAS 32.

…

Other Revenues

…

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with ~~IPSAS 9~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32.

…

BC5. When this Standard was issued, the ~~The~~ IPSASB had also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions). [Draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, was issued [MM YY] and replaced IPSAS 9. In developing [draft] IPSAS [X] (ED 70), the IPSASB considered whether there remained a need for such guidance and concluded that the need remained the same.

…

BC29. In responding to the issues raised by respondents to ED 43, the IPSASB had reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB had noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the Board had referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In developing [draft] IPSAS [X] (ED 70), the IPSASB noted that service concession arrangements are transactions with performance obligations. Consequently, the IPSASB concluded that it would be appropriate to apply the principles in [draft] IPSAS [X] (ED 70) when considering the nature of the revenue and the timing of the recognition of that revenue under IPSAS 32.

BC30. Where the operator bears the demand risk, the grantor compensates the operator by the grant of a right (e.g., a license) to charge users of the public service related to the service concession asset or of another revenue-generating asset. The grantor provides the operator access to the asset in order for the operator to be compensated for construction, development, acquisition, or upgrade of the service concession asset. IFRIC 12 classifies this type of arrangement as the "intangible asset model." This Standard refers to this type of arrangement as the "grant of a right to the operator model."

BC31. The IPSASB therefore had considered whether the credit should be accounted for as a liability, as a direct increase to net assets/equity, or as revenue.

BC32. The IPSASB had ~~It was~~ agreed that, in this circumstance, the grantor does not have a liability because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC33. Some respondents to ED 43 had indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

(d) Non-controlling interests.

BC34. The IPSASB had concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

(a) Contributions from owners are defined as "future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed." The credit related to the recognition of a service concession asset does not meet this definition because the operator has not made a contribution to the grantor that results in a financial interest in the entity by the operator as envisaged by IPSAS 1.

(b) Accumulated surplus/deficit is an accumulation of an entity's surpluses and deficits. The credit related to recognition of a service concession asset represents an individual transaction and not an accumulation.

(c) Reserves generally arise from items recognized directly in net assets/equity from specific requirements in IPSASs, and may include, for example, gains and losses on revaluation of assets (e.g., property, plant, and equipment, investments). The credit related to the recognition or reclassification of a service concession asset does not represent a gain or loss specified to be directly recognized in net/assets equity because it involves an exchange transaction and not a revaluation of an existing asset of the grantor. Existing assets of the grantor, when used in a service concession arrangement and continue to meet the control criteria in this Standard, are reclassified, thus no revaluation is done.

(d) A non-controlling interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity." A non-controlling interest may arise, for example, when at the whole-of-government level, the economic entity includes a commercial public sector entity that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity. The credit related to the recognition of a service concession asset does not meet this definition because operator does not have such a financial interest in the grantor.

BC35. When this Standard was issued, the ~~The~~ IPSASB had agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third-party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability. In developing [draft] IPSAS [X] (ED 70), the IPSASB noted that that principles in [draft] IPSAS [X] (ED 70) lead to the same conclusion: the grantor has received a service concession asset as consideration for granting a right (a license) to the operator to charge third-party users of the public service that it provides on the grantor's behalf during the term of the service concession arrangement.

BC36. When this Standard was issued, the ~~The~~ IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result was ~~is~~ consistent with IPSAS 9 in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues. In developing [draft] IPSAS [X] (ED 70), the IPSASB noted that the exchange of dissimilar assets is consistent with the guidance in [draft] IPSAS [X] (ED 70) on whether a transaction has economic substance.

BC37. When this Standard was issued, the ~~The~~ revenue was ~~is~~ measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received could not ~~cannot~~ be measured reliably, the revenue was ~~is~~ measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. In developing [draft]

IPSAS [X] (ED 70), the IPSASB concluded that the non-cash consideration received in a revenue transaction should be measured at fair value, and that when the fair value of non-cash consideration cannot be measured reliably, the consideration is measured indirectly by reference to the stand-alone price of the good or services promised to the purchaser or third-party beneficiary. This approach under [draft] IPSAS [X] (ED 70) is consistent with the conclusions reached when IPSAS 32 was issued.

BC38. When this Standard was issued, IPSAS 9 had identified ~~identifies~~ three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB had considered these types of transactions separately.

BC39. The IPSASB had considered the approaches to revenue recognition set out in IPSAS 9 in relation to the "grant of a right to the operator" model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB had noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB had determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability. In developing [draft] IPSAS [X] (ED 70), the IPSASB determined that, by analogy, the pattern of revenue recognition required by this Standard is also consistent with the recognition of revenue under [draft] IPSAS [X] (ED 70). Consequently, the IPSASB agreed that no changes were required to the revenue recognition requirements in IPSAS 32.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 32.

…

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.

…

WITHIN THE SCOPE OF THE STANDARD

- …
- Grantor recognizes related liability equal to the value of the SCA asset (~~IPSAS 9~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, ~~IPSAS 28, IPSAS 29,~~ and IPSAS ~~30~~41)
- …

…

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor				Operator	
Relevant IPSAS~~s~~	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) (revenue recognition)	

Amendments to IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraph 41 is amended and paragraph 154I is added. New text is underlined and deleted text is struck through.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

…

41. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, or other receivables settled in cash or another financial asset in terms of [draft] IPSAS [X] (ED 71), *Revenue ~~from Non-Exchange Transactions (Taxes and Transfers)~~without Performance Obligations*.

…

Effective Date

…

154I. Paragraph 41 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

~~IPSAS 9, *Revenue from Exchange Transactions*~~ [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) (for example, the proceeds of a transaction~~sale~~ that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) are met.

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSAS~~s~~.

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
…	…	…	…	…	…	…	…	…
~~IPSAS 9, *Revenue from Exchange Transactions*~~					~~√~~ ~~To extent that 3 year relief period was adopted for assets and/or liabilities~~			
[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*	√				√ To extent that 3 year relief period was adopted for assets and/or liabilities			
…	…	…	…	…	…	…	…	…
~~IPSAS 11, *Construction Contracts*~~	~~√~~							
…	…	…	…	…	…	…	…	…
~~IPSAS 23, *Revenue from Non-Exchange Transactions*~~			~~√~~ ~~All non-exchange revenue not recognized under previous basis of accounting~~	~~√~~ ~~All non-exchange revenue recognized under previous basis of accounting~~	~~√~~ ~~To the extent that 3 year relief period was adopted for assets and/or liabilities~~			
[draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*			√ All revenue without performance obligations not recognized under previous basis of accounting	√ All revenue without performance obligations recognized under previous basis of accounting	√ To the extent that 3 year relief period was adopted for assets and/or liabilities			

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS~~s~~

…

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
• …	…	…	…
• ~~IPSAS 9~~[draft] IPSAS [X] (ED 70)Relief for recognition and/or measurement of revenue related to adoption of three year relief period for recognition and/or measurement of financial instruments			√
• …	…	…	…

…

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 115 is amended and paragraph 126E is added. New text is underlined and deleted text is struck through.

…

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

…

Subsequent Measurement and Accounting

…

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

    (a) The amount that would be recognized in accordance with IPSAS 19; and

    (b) The amount initially recognized less, if appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

This requirement does not apply to contracts accounted for in accordance with IPSAS 41, *Financial Instruments*.

…

Effective Date

…

126E. Paragraph 115 was amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 40.

…

IG192. …

54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue with Performance Obligations ~~Revenue from exchange transactions~~	2,681	25,377
	…		

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 3, 45, 87, AG2, AG5, AG33, AG34, AG132, AG133 and AG158 are amended and paragraph 156B is added. New text is underlined and deleted text is struck through.

…

Scope

…

3. The impairment requirements of this Standard shall be applied to those rights arising from ~~IPSAS 9, Revenue from Exchange Transactions~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations* and IPSAS 23 transactions which give rise to financial instruments for the purposes of recognizing impairment gains or losses.

…

Classification

…

Classification of Financial Liabilities

45. An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

    (a) …

    (c) Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 45(a) or (b) applies) subsequently measure it at the higher of:

        (i) …; and

        (ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [X] (ED 70).

    (d) Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:

        (i) …; and

        (ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [X] (ED 70).

    (e) …

…

Measurement

…

Initial Measurement

…

60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term receivables that do not have a significant financing component (determined in accordance with [draft] IPSAS [X] (ED 70) at their transaction price (as defined in [draft] IPSAS [X] (ED 70) for transactions with performance obligations or [draft] IPSAS [X] (ED 71) for transactions without performance obligations) ~~and payables at the original invoice amount if the effect of discounting is immaterial~~. An entity may measure short-term payables at the original invoice amount if the effect of discounting is immaterial.

Impairment

…

Simplified Approach for Receivables and Binding Arrangement Assets

87. Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:

(a) Receivables or binding arrangement assets that result from ~~exchange~~ transactions with performance obligations that are within the scope of ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) ~~and~~ or receivables or transfer recipient's binding arrangement assets that result from transactions without performance obligations within the scope of [draft] IPSAS [X] (ED 71)~~23.~~, and that:

(i) Do not contain a significant financing component in accordance with [draft] IPSAS [X] (ED 70) or [draft] IPSAS [X] (ED 71) (or when the entity applies the practical expedient in accordance with paragraph 62 of [draft] IPSAS [X] (ED 70) or paragraph 73 of [draft] IPSAS [X] (ED 71));

(ii) Contain a significant financing component in accord with [draft] IPSAS [X] (ED 70) or [draft] IPSAS [X] (ED 71), if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all receivables or binding arrangement assets but may be applied separately to receivables and binding arrangement assets.

(b) …

…

Effective Date

…

156B. Paragraphs 3, 45, 87, AG2, AG5, AG33, AG34, AG132, AG133 and AG158 were amended by [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 70) at the same time.

Appendix A

Application Guidance

This Appendix is an integral part of, IPSAS 41.

Scope

…

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by retirement benefit plans and royalty agreements based on the volume of sales or service revenues that are accounted for under ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

…

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

(a) Although a financial guarantee contract meets the definition of an insurance contract in ~~IFRS 4~~ the scope relevant international or national accounting standard dealing with insurance contracts if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

(i) …; and

(ii) The amount initially recognized less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) (see paragraph 45(c)).

…

(c) If a financial guarantee contract was issued in connection with the provision~~sale~~ of goods, the issuer applies ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) in determining when it recognizes the revenue from the guarantee and from the sale of goods.

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with the relevant revenue standard (see ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) and IPSAS 23). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

Continuing Involvement in Transferred Assets

AG34. The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 27.

All Assets

(a) If a guarantee provided by an entity to pay for default losses on a transferred asset prevents the transferred asset from being derecognized to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognized in surplus or deficit ~~on a time proportion basis~~ when (or as) the obligation is satisfied (~~see IPSAS 9~~ in accordance with the principles of [draft] IPSAS [X] (ED 70) and the carrying value of the asset is reduced by any loss allowance.

(b) …

…

Valuing Financial Guarantees Issued Through a Non-Exchange Transaction

…

AG132. In paragraph 9, "financial guarantee contract" is defined as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument." Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [X] (ED 70).

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognize the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized, less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9~~[draft] IPSAS [X] (ED 70). Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

…

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~IPSAS 9~~[draft] IPSAS [X] (ED 70) include:

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 70). As this Standard is based on IFRS 15, *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where [draft] IPSAS [X] (ED 70) departs from the main requirements of IFRS 15.

Overview

BC2. In May 2014, the IASB published the final version of IFRS 15, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.

BC3. In 2015, the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses.* In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate the guidance for non-exchange revenue transactions, in particular the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:

(a) Transactions with no performance obligations or stipulations. Under the current framework in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, revenue transactions with stipulations involved the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;

(b) Transactions with stipulations, as described in IPSAS 23, that do not meet all the requirements of IFRS 15; and

(c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.

The IPSASB noted that the majority of respondents supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of restrictions or conditions in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice. Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-

exchange distinction and decided to develop accounting approaches based on whether the transaction is with or without performance obligations.

Transactions with no Performance Obligations or Stipulations

BC4. The IPSASB proposed that requirements for revenue transactions that do not contain any performance obligations or stipulations will be provided in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, which is an update of IPSAS 23. The accounting for revenue transactions with no performance obligations or stipulations based on the IFRS 15 revenue recognition model (which involves the identification and fulfillment of performance obligations) would not be appropriate or practical to apply for these types of transactions. Most respondents to the CP agreed with the IPSASB.

Transactions with Stipulations that do not Meet all the Requirements of IFRS 15

BC5. The IPSASB considered the recognition of revenue transactions that contain stipulations which do not have all the characteristics of performance obligations as defined in IFRS 15. Ultimately, the Board decided such revenue transactions would be within the scope of [draft] IPSAS [X] (ED 71), and that [draft] IPSAS [X] (ED 70) would only apply to revenue transactions with all the characteristics of performance obligations. See paragraph BC34.

Transactions that Meet all the Requirements of IFRS 15

BC6. The public sector has revenue transactions that are akin to that of the private sector (for example revenue from providing goods or services). The IPSASB proposed that the standards-level requirements and guidance for revenue transactions in the public sector that have performance obligations as defined in IFRS 15 should be aligned with the requirements and guidance in IFRS 15.

BC7. The IPSASB decided to develop a new IPSAS that is primarily drawn from IFRS 15 and would replace IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*. The majority of respondents to the CP supported the IPSASB's approach.

BC8. Based on the above, the IPSASB decided that the new IPSAS should only be applied to revenue transactions with performance obligations as defined in IFRS 15. The scope of the new IPSAS was expanded to clarify that in the public sector, revenue transactions with performance obligations could involve the transfer of goods or services directly to the purchaser or third-party beneficiary

Process

BC9. In developing the [draft] Standard, the IPSASB considered the aspects of IPSAS 9 and IPSAS 11 that had been developed specifically to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the [draft] Standard. The IPSASB also considered the guidance on revenue in the *Government Finance Statistics Manual 2014* (GFSM 2014) with the aim of avoiding unnecessary differences. In developing additional examples that illustrated the public sector environment, the IPSASB also considered guidance developed by national standard setters and bodies with oversight responsibilities for public sector entities.

BC10. The text of [draft] IPSAS [X] (ED 70) is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. This new

[draft] IPSAS replaces IPSAS 9 and IPSAS 11, which were principally based on IAS 18 and IAS 11 respectively.

Alignment with IFRS 15

BC11. In developing [draft] IPSAS [X] (ED 70), the IPSASB applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development process, the IPSASB debated a number of issues and whether departure was justified.

BC12. The IPSASB agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:

(a) Changes to the definitions and terminology in IFRS 15 to ensure consistency with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework), consistency with definitions and terminology in existing IPSAS, and to reflect the public sector;

(b) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;

(c) "Amendments to Other Standards" in IFRS 15 were replaced with "Amendments to Other IPSAS" to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;

(d) Deletion of illustrative examples which had limited or no applicability to the public sector; and

(e) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector specific examples to assist with the application of [draft] IPSAS [X] (ED 70).

Title of [draft] IPSAS [X] (ED 70)

BC13. The IPSASB modified the title of [draft] IPSAS [X] (ED 70) from that used by IFRS 15 to, "*Revenue with Performance Obligations".* This title was chosen as the key criterion in deciding if a revenue transaction is within the scope of [draft] IPSAS [X] (ED 70) or [draft] IPSAS [X] (ED 71) is whether the arrangement includes performance obligations to transfer distinct goods or services to purchasers or third-party beneficiaries. Furthermore, this title corresponds with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, which is a proposed update of IPSAS 23.

Objective of [draft] IPSAS [X] (ED 70)

BC14. The IPSASB referred specifically to the five-step revenue recognition model in the authoritative "Objective" section of [draft] IPSAS [X] (ED 70) to explain the core principle of the Standard. The IASB only mentioned the five-step revenue recognition model in the Basis for Conclusions of IFRS 15.

Scope (paragraphs 3 – 6)

BC15. The IPSASB aligned the objective and scope of [draft] IPSAS [X] (ED 70) to that of IFRS 15. [Draft] IPSAS [X] (ED 70) only applies to revenue from binding arrangements that include performance obligations to transfer distinct goods or services to purchasers or third-party

beneficiaries. Non-binding revenue arrangements or other binding revenue arrangements that do not include performance obligations are to be accounted in accordance with the requirements of [draft] IPSAS [X] (ED 71).

Modification of IFRS 15 for Applicability to the Public Sector

BC16. The IPSASB modified the requirements of IFRS 15 to address public sector specific transactions. This included adding the concept of a binding arrangement (which is broader than a contract) to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.

BC17. The IPSASB modified enforceability to include mechanisms that are outside the legal system. This change was made as some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered "contracts".

BC18. Public sector transactions often involve three parties: the purchaser, which provides the consideration; the entity, which receives the consideration and is responsible for the delivery of goods or services; and the third-party beneficiary, which can be individuals or households, receiving those goods or services. While the IASB's educational materials referred to such three-party arrangements, they were not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in [draft] IPSAS [X] (ED 70), as three-party transactions are expected to be much more prevalent in the public sector.

Non-monetary Exchanges between Entities in the Same Line of Business

BC19. In the discussion of non-monetary exchanges in paragraph 3(f) of [draft] IPSAS [X] (ED 70), the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

Highlighting the Relationship Between ED 70, ED 71 and ED 72

BC20. The IPSASB considered clarifying the scope and interaction between [draft] IPSAS [X] (ED 70), [draft] IPSAS [X] (ED 71), and [draft] IPSAS [X] (ED 72), *Transfer Expense*, by defining the terms "Transfer Revenue with Performance Obligations" in [draft] IPSAS [X] (ED 70) and "Transfer Revenue" in [draft] IPSAS [X] (ED 71) in order to mirror the definition of "Transfer Expense" in [draft] IPSAS [X] (ED 72):

(a) The IPSASB considered defining Transfer Revenue as a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without directly providing any good, service, or other asset in return; and

(b) The IPSASB also considered defining Transfer Revenue with Performance Obligations as revenue earned from the provision of goods or services to third-party beneficiaries.

BC21. While the IPSASB acknowledged that the above definitions were accurate and that it would be conceptually sound to highlight the mirroring relationship between transfer revenue and transfer expenses, the IPSASB ultimately decided not to introduce these terms as formal definitions for the following reasons:

(a) The IPSASB noted that the key distinguishing feature for revenue to be in scope of [draft] IPSAS [X] (ED 70) or [draft] IPSAS [X] (ED 71) was whether the revenue arose from a

transaction with or without performance obligations. A number of members were concerned that introducing new definitions relating to revenue may confuse constituents; and

(b) Transfer revenue with performance obligations would have been a subset of revenue within the scope of [draft] IPSAS [X] (ED 70), while transfer revenue would have been a subset of revenue within the scope of [draft] IPSAS [X] (ED 71). Separately defining these terms when their recognition and measurement would have been the same as other types of revenue within their respective standards seems to be adding an unneeded level of complexity.

BC22. Nevertheless, the IPSASB noted that some constituents who provide goods, services, or other assets to third-party beneficiaries would like to disclose information in their financial statements regarding their programs. As a result, the IPSASB decided to revise paragraph AG139, which provides suggestions for the categories used to disaggregate revenue disclosures, to include a category for revenue earned from the provision of goods or services to third-party beneficiaries.

Definitions (see paragraph 7)

General Alignment with Public Sector Terminology

BC23. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in [draft] IPSAS [X] (ED 70) to better align with terminology used in the public sector:

(a) All the references to "sell" or "sold" were replaced with the terms "provide" and "provided", respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;

(b) "Stand-alone selling price" was replaced with "stand-alone price";

(c) "Customary business practices" was replaced with an entity's "customary practices";

(d) "Industry" was replaced with "sector"; and

(e) Editorial changes were made to the definition of "transaction price" in order to facilitate the use of the term in [draft] IPSAS [X] (ED 71).

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC24 – BC32.

Binding Arrangements

BC24. The IPSASB replaced all references to "contracts" in IFRS 15 with references to the term "binding arrangements". This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of [draft] IPSAS [X] (ED 70), should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and obligations to both parties in the arrangement. To assist with the expanded concept of binding arrangements, application guidance was added to [draft] IPSAS [X] (ED 70) in paragraphs AG7–AG12. As the concept of a contract may still be applicable in the public sector, the IPSASB also retained the definition of contract but specified that a contract is a type of binding arrangement.

Binding Arrangement Asset and Binding Arrangement Liability

BC25. As a consequence of replacing all references to "contract" with references to "binding arrangement", the IPSASB also replaced the terms "contract asset" and "contract liability" with "binding arrangement asset" and "binding arrangement liability", respectively.

Purchaser and Third-Party Beneficiary

BC26. The IPSASB replaced the term "customer" with "purchaser", because the use of the term "purchaser" is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiary. As the term "customer" may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC27. The IPSASB added the term "third-party beneficiary" following the term "purchaser" where appropriate to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term "third-party beneficiary" was defined so that its meaning can be consistently applied to [draft] IPSAS [X] (ED 70), as well as [draft] IPSAS [X] (ED 71) and [draft] IPSAS [X] (ED 72).

Revenue and Customer

BC28. The IASB's definition of revenue refers to income arising in the course of an entity's ordinary activities, and income encompasses both revenues and gains. The IASB's definition of customer also refers to obtaining goods or services that are an output of the entity's ordinary activities. To be consistent with IPSAS 1, *Presentation of Financial Statements*, the IPSASB decided not to adopt the IASB's definition of revenue. As a result, the definition of "revenue" in [draft] IPSAS [X] (ED 70) is consistent with IPSAS 1 and does not refer to "income arising in the course of an entity's ordinary activities".

BC29. As the IASB's definition of "revenue" which refers to "ordinary activities" was not adopted, the IPSASB replaced the references to "ordinary activities" in the definition of "customer" with references to "activities" to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

Economic Substance

BC30. The IPSASB decided to replace the term "commercial substance" with "economic substance" which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term "commercial substance" was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG26–AG28.

Combining Binding Arrangements

BC31. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB thought about replacing the term "commercial objective", with "economic objective", because the term "commercial objective" refers to the objective to make profit, whereas the primary objective of most public sector entities is to deliver services to the

public. However, the IPSASB decided to simply replace the term “commercial objective” with “objective” because the term “economic objective” could have a different connotation for the public sector than the objective of delivering services to the public.

Economic Benefits and Service Potential from Distinct Goods or Services

BC32. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the ability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term “benefits” with “economic benefits or service potential” in [draft] IPSAS [X] (ED 70).

Retained Terminology and Definitions

BC33. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification as there was no public sector-specific reason to modify them:

(a) Goods or services;

(b) Consideration;

(c) Exchange;

(d) Distinct; and

(e) Fair value.

BC34. The IPSASB discussed whether the definition of a performance obligation in IFRS 15, which includes the transfer of goods or services, should be modified to include some transactions that do not result in a transfer of a good or service (e.g. capital grants and some research grants). The IPSASB ultimately decided to retain the IFRS 15 definition of a performance obligation, and to address transactions that do not have performance obligations in [draft] IPSAS [X] (ED 71).

Recognition (see paragraphs 8 – 44)

Step 1: Identifying the Binding Arrangement (see paragraphs 8 – 20)

Probability of Collection of Consideration to which an Entity is Entitled (Paragraph 8(e))

BC35. Paragraph 8(e) is part of the criteria that must be met before an entity can apply the five-step revenue recognition model in [draft] IPSAS [X] (ED 70). Paragraph 8(e) requires the collection of consideration to which an entity is entitled to be probable.

BC36. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:

(a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and

(b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with

that customer without adequate economic protection to ensure that it would collect the consideration.

BC37. The IPSASB acknowledged that the probability criterion for certain binding arrangements with purchasers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the purchaser's ability or intention to pay. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

BC38. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 8(e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 14 of [draft] IPSAS [X] (ED 70) are met.

BC39. The IPSASB decided to retain paragraph 8(e) because:

(a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 7 of [draft] IPSAS [X] (ED 70), paragraph 7 of IPSAS 1, *Presentation of Financial Statements*, and paragraph 5.29 of the Conceptual Framework; and

(b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.

BC40. The IPSASB acknowledged that arrangements an entity is compelled to enter where the collectability of the consideration is in question could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in AG31 (see paragraph BC50).

BC41. To assist with the application of paragraph 8(e), the IPSASB added paragraph AG31, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction price meets the collectability criterion in paragraph 8(e) and the entity applies the five-step revenue recognition model to the binding arrangement.

Recognition of Consideration Received as Revenue when the Criteria in Paragraph 8 are not Met (Amendment of Paragraph 14)

BC42. In IFRS 15, if a transaction does not meet all the criteria for revenue recognition using the five-step revenue recognition model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:

(a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) The contract has been terminated and the consideration received from the customer is non-refundable.

BC43. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized, even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB amended paragraph 14(a) of [draft] IPSAS [X] (ED 70), so that an entity shall recognize the consideration received as revenue when the entity has transferred the goods or services to which the collected consideration relates, the entity has no obligation to transfer additional goods or services for the collected consideration, and the consideration received is non-refundable.

Overall Impact from the Application of Paragraphs 8(e), 14 and AG31

BC44. The IPSASB noted that the application of paragraphs 8(e), 14 and AG31 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this [draft] Standard are applied:

(a) Criterion 8(e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step revenue recognition model and no specific disclosures regarding compelled transactions are required. As required by paragraph 12, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 8.

(b) Criterion 8(e) is met, but only after the transaction price has been reduced for the implicit price concession as noted in paragraph AG31 – In this scenario, the binding arrangement will be accounted for using the five-step revenue recognition model but at the reduced transaction price. Specific disclosures regarding compelled transactions will be required by paragraph 120. (See paragraph BC50 below.) Similar to the scenario in paragraph BC44(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 12 to reassess if the binding arrangement continues to meet all the criteria in paragraph 8.

(c) Criterion 8(e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 13 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 8. Any consideration received is subject to the revenue recognition criteria in paragraphs 14 and 15. Specific disclosures regarding compelled transactions will be required by paragraph 120.

(d) Criterion 8(e) is not met, and no consideration has been collected – In this scenario, paragraph 13 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 8. Specific disclosures regarding compelled transactions will be required by paragraph 120.

Based on the above, the IPSASB was satisfied that paragraphs 14, 120 and AG31 address the concerns discussed in BC40, BC43 and BC50.

Measurement (see paragraphs 45–85)

Step 4: Allocating the Transaction Price to Performance Obligations (see paragraphs 50 and 77–90)

BC45. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

(a) **Adjusted market assessment approach** – an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;

(b) **Expected cost plus a margin approach** – an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or

(c) **Residual approach** – an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

BC46. The IPSASB retained the methods of determining a stand-alone price in [draft] IPSAS [X] (ED 70) as they were appropriate for the transactions that would be covered in the [draft] Standard. However, the IPSASB replaced the term “expected cost plus a margin approach”, with the term “expected cost approach”, because certain goods or services are purchased or produced by public sector entities for no charge or for a nominal charge (‘cost recovery’ or ‘noncommercial basis’).

BC47. These methods are used to estimate the stand-alone price in order to allocate the transaction price to each performance obligation.

Disclosure (see paragraphs 109–130)

Approach to Modification of Disclosure Requirements

BC48. The IPSASB noted the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from binding arrangements with performance obligations. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in [draft] IPSAS [X] (ED 70), the IPSASB decided that there was no public sector-specific reason to remove any of the disclosures requirements from IFRS 15. The IPSASB acknowledges that the retention of all disclosure requirements from IFRS 15 will result in significantly more requirements than required in the existing IPSAS 23.

Materiality and Aggregation

BC49. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by [draft] IPSAS [X] (ED 70). Based on feedback from constituents on previously issued IPSAS, the Board noted that it would be helpful to include an

explicit reference to the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1. This reference was added to paragraph 112 of [draft] IPSAS [X] (ED 70).

Transactions where an Entity is Compelled to Satisfy a Performance Obligation and Collection of Consideration is not Probable

BC50. In response to the concerns noted in paragraph BC40 regarding the potential loss of information on transactions where an entity is compelled to satisfy a performance obligation and where the collection of consideration is not probable or only assessed as probable after accepting a price concession as noted in paragraph AG31, the IPSASB decided to require disclosure of the information in paragraph 120. The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions for which revenue was not recognized.

Application Guidance (see paragraphs AG1 – AG139)

Enforceability

BC51. The IPSASB noted that some binding arrangements are enforceable not by legal means but by equivalent enforcement mechanisms. Paragraphs AG19-AG21 of [draft] IPSAS [X] (ED 70) discusses the equivalent enforcement mechanisms.

BC52. The CP, *Accounting for Revenue and Non-Exchange Expenses*, proposed the following as possible enforcement mechanisms by equivalent means:

(a) Legislation;

(b) Cabinet and ministerial decisions; and

(c) Reduction of future funding.

BC53. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, were subsets of legislation and may in some circumstances be valid enforcement mechanisms.

BC54. Respondents to the CP were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the purchaser had a present obligation to provide future funding in another binding arrangement. Without this binding arrangement and present obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.

BC55. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.

BC56. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.26 of the Conceptual Framework states "economic coercion, political necessity or other circumstances may give rise to situations where although the public sector entity is not legally obligated to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion,

political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation".

BC57. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of [draft] IPSAS [X] (ED 70) because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in [draft] IPSAS [X] (ED 70) requires both parties to agree to both the enforceable rights and obligations within that agreement.

BC58. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g. a general policy statement or announcement following a natural disaster) would create an enforceable binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Transactions with Components within the Scope of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations

BC59. The IPSASB discussed situations where a purchaser may enter a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives—e.g., providing a donation in addition to obtaining goods or services. The IPSASB noted that there is a rebuttable presumption in [draft] IPSAS [X] (ED 70) that all consideration received in a revenue binding arrangement relates entirely to the performance obligations within that arrangement. Because of this underlying presumption, in order to separate a portion of the consideration and account for it outside the scope of [draft] IPSAS [X] (ED 70), there must be clear and objective evidence that a portion of the consideration received truly represents amounts that do not relate to performance obligations, which is the case when amounts are provided by a purchaser to help the entity achieve its objectives. The IPSASB considered the use of measurement-based criteria—e.g., allocating the consideration to performance obligations based on their standalone prices, then allocating the residual consideration to revenue within the scope of [draft] IPSAS [X] (ED 71)—but noted that unintended consequences may arise due to the subjective and entity-specific nature of standalone prices. The IPSASB decided that to clearly demonstrate that a portion of the consideration is not related to performance obligations, the binding arrangement must state that if the entity does not satisfy its performance obligations to deliver goods or services, it is only required to return a specified portion of the consideration received. The remaining portion which the entity is not required to return would represent consideration received to help the entity achieve its objectives and would fall within the scope of [draft] IPSAS [X] (ED 71).

BC60. Based on the above discussions, the IPSASB decided to provide additional guidance in paragraphs AG69 and AG70 on when and how an entity should separate the consideration from such transactions into a transaction price for goods or services accounted for under [draft] IPSAS [X] (ED 70) and amounts to be accounted for under [draft] IPSAS [X] (ED 71).

Determination of Stand-Alone Price

BC61. The determination of stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone price may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration, and some may interpret the requirements on determination of stand-alone price to only consider amounts received directly from the party receiving the goods or services. To address the issue, the IPSASB added guidance in paragraph AG91, which states that a stand-alone price in such situations shall be estimated based on the amount that would be paid in market terms to acquire the economic benefits or service potential of the goods or services. Where market information is not available, the stand-alone price is based on an estimate using the expected cost approach.

Subsequent Measurement of Receivables

BC62. IFRS 15 did not include specific guidance on the subsequent measurement of receivables, as IFRS 15 dealt with contractual agreements, and all receivables arising from such agreements would be within the scope of the financial instrument standards. Because [draft] IPSAS [X] (ED 70) applies more broadly to binding arrangements with performance obligations, it is possible for receivables to fall outside the scope of IPSAS 41, *Financial Instruments*. Applying the measurement requirements of [draft] IPSAS [X] (ED 70) to such receivables would result in their initial measurement at the transaction price, as required by paragraphs 57–60 and AG115–AG117 of IPSAS 41. To address the lack of guidance for subsequent measurement of these receivables, the IPSASB added paragraphs AG140–AG141, which are based on the subsequent measurement guidance in IPSAS 41.

Illustrative Examples (see paragraphs IE1–IE357)

Adaptation of the Illustrative Examples from IFRS 15 for use in [draft] IPSAS [X] (ED 70)

BC63. The IPSASB used the following approach to adapt the illustrative examples from IFRS 15 for use in [draft] IPSAS [X] (ED 70):

(a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;

(b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. (This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods or services in the telecommunications sector, "slotting fees" paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario); and

(c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, and the additional disclosure requirements added to [draft] IPSAS [X] (ED 70).

BC64. The IPSASB acknowledged that while the illustrative examples are not authoritative, an entity applying [draft] IPSAS [X] (ED 70) may find examples dealing with commercial transactions to be helpful if it is a party to such transactions. The IPSASB expects such situations to be rare, which

led to the decision to remove the examples with limited applicability to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional illustrative examples of how an entity might apply the requirements of the [draft] Standard.

BC65. The IPSASB also considered incorporating an example on contract costs from IPSAS 11 into [draft] IPSAS [X] (ED 70). However, after considering the fact pattern in the example, the IPSASB decided that the example is more suitable for [draft] IPSAS [X] (ED 71), as the arrangement in the example did not contain performance obligations.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] Standard.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED70), Revenue with Performance Obligations. They illustrate aspects of IPSAS [X] but are not intended to provide interpretative guidance.

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, to particular aspects of a binding arrangement with a purchaser on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 70).

Scope

IE2. Examples 1 – 3 illustrate the requirements in paragraphs 7 and AG7-AG24of [draft] IPSAS [X] (ED 70) on the determination of whether a transaction arose from a binding arrangement and whether the binding arrangement includes performance obligations. Examples 2 – 3 also illustrate the requirement in paragraph 3(a) of [draft] IPSAS [X] (ED 70) on revenue transactions arising from binding arrangements that do not include performance obligations to transfer goods or services to the purchaser or third-party beneficiary. Example 3 illustrates the requirements in paragraphs AG69–AG70 on revenue transactions with components that are within the scope of [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Example 1—Transaction Arose from an Arrangement that is Not Binding

Case A–No Performance Obligations, No Specified Time Period, and No Reporting to the Government

IE3. A social development entity receives funding of CU5[5] million from a government body to fund its employment programs. The agreement requires funding to be spent on programs with the goal of improving employment in the region. However, the agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the government will receive or verify information on how the funds were spent.

IE4. The social development entity concludes that the funding agreement is not a binding arrangement, as it does not confer enforceable rights and obligations on the parties to the arrangement in accordance with paragraphs 7 and AG7 of [draft] IPSAS [X] (ED 70). While there is a requirement to spend the CU5 million on employment programs, the social development entity is not obligated to use the funds in a specific way or within a specific time period. The government also has no realistic way to enforce the requirement to spend all of the funds. As a result, this arrangement is within the scope of [draft] IPSAS [X] (ED 71).

[5] In these examples monetary amounts are denominated in ‘currency units’ (CU).

Case B–Specified Time Period to Spend Funds

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not result in performance obligations, as the agreement still does not require the transfer of distinct goods or services—i.e., the social development entity has complete discretion over how and when within the five-year period to spend the funds. Furthermore, the government continues to not have any realistic way to enforce the requirement to spend all of the funds within five years. As a result, this arrangement is not binding and falls within the scope of [draft] IPSAS [X] (ED 71).

Case C–Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE6. The same facts as in Case B apply to Case C, except the agreement specifies how the social development entity is to report its spending to the government. The social development entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that could reasonably relate to improving employment in the region. Because of the presence of the requirement to spend the funds in a specified time frame *and* a mechanism to measure and report progress to the government, the social development entity concludes that the agreement is binding. However, it should be noted that the agreement does not contain performance obligations as the social development entity is not required to transfer any distinct goods or services under the general requirement to spend the funds on employment programs. As a result, this arrangement is within the scope of [draft] IPSAS [X] (ED 71).

Example 2—Transactions Arose from a Binding Arrangement without Performance Obligations

IE7. A research lab receives a sum of CU10 million from a local government to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the research lab; if these milestones are not met, the research lab is required to return all, or a portion, of the funds to the government. Once the research is complete, there is no requirement in the agreement for the research lab to transfer the findings or any resulting intellectual property to the government. Based on these terms, the research lab has concluded that the agreement is a binding arrangement in accordance with paragraphs 7 and AG7 of [draft] IPSAS [X] (ED 70), as it must perform in accordance with the specified milestones in order to retain the funds.

IE8. The research lab considers whether this arrangement falls within the scope of this [draft] IPSAS [X] (ED 70) and notes that although it has agreed to perform a specified service (the research activities) that is distinct, the agreement does *not* include performance obligations, as defined, as there is no transfer of a good or service from the research lab to the local government (the purchaser) or any other third-party beneficiary. Therefore, the research lab concludes that this agreement is within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

IE9. In contrast, if the above agreement had required the research lab to transfer the research results or the resulting intellectual property to the local government or a third-party beneficiary, the arrangement would be within the scope of [draft] IPSAS [X] (ED 70), as there would have been a transfer of a distinct good or service. (See Example 14 at paragraphs IE37-IE38 of [draft] IPSAS [X] (ED71).)

Example 3—Transactions with One Component which is Within the Scope of [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations*, and Another Component which is Within the Scope of [draft] IPSAS [X] (ED 71),* Revenue without Performance Obligations

IE10. A hospital foundation is raising funds by selling tickets to a networking dinner. The price of each ticket is CU300, and each ticket clearly states that if the networking dinner is cancelled, the foundation will only return CU100 to each ticket holder. Each ticket also clearly states that the remaining CU200 of consideration is non-refundable. Other than the networking dinner, the foundation is not obligated to provide any other good or service to the ticketholders.

IE11. The foundation applies paragraphs AG69–AG70 of [draft] IPSAS [X] (ED 70) and concludes that the disclosed cancellation terms provide evidence that each ticket consist of two components:

(a) CU100 of the transaction price relates to the promise to provide admission at the networking dinner to each ticket holder; and

(b) The remaining CU200, which is non-refundable, is considered a donation to the foundation, as the foundation is not obligated to provide any good or service in exchange for this amount.

IE12. Accordingly, CU100 of the consideration received for each ticket is within the scope of [draft] IPSAS [X] (ED 70), while the remaining CU200 per ticket is accounted for in accordance with [draft] IPSAS [X] (ED 71).

Enforceability

IE13. Example 4 illustrates the requirements of paragraphs AG13 – AG24 of [draft] IPSAS [X] (ED 70) on enforceability by a mechanism other than legal means, i.e., by means other than compulsion by a jurisdiction's legal system to comply with the terms of the binding arrangement with purchasers.

Example 4—Enforceability by Mechanism other than Legal Means

IE14. Pursuant to a ministerial directive (see AG19 of [draft] IPSAS [X] (ED 70)), a state government signed a memorandum of understanding with the Department of Public Works (Public Works) to build a government office building. The memorandum is not legally binding on either of the parties, does not impose a refund obligation for Public Works in the event that it fails to perform under the terms of the memorandum, or refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the state government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the state government on its first month of work, and the state government has accepted the work performed to date.

IE15. Given the parties' reliance upon the memorandum of understanding, the fact that Public Works has performed construction services in accordance with the terms of the memorandum, and the fact that the work performed to date has been reported to and accepted by the state government, the memorandum has become enforceable based on the concept of promissory estoppel. That is, the state government has the right to enforce Public Works to fulfill the promises in the memorandum or seek redress should these promises are not fulfilled. As a result, the memorandum is considered enforceable despite it not being legally binding.

Step 1: Identifying the Binding Arrangement

IE16. Examples 5 – 8 illustrate the requirements in paragraphs 8–15 of [draft] IPSAS [X] (ED 70) on identifying the binding arrangement. In addition, the following requirements are illustrated in these examples:

(a) The interaction of paragraph 88 of [draft] IPSAS [X] (ED 70) with paragraphs 46 and 51 of [draft] IPSAS [X] (ED 70) on estimating variable consideration (Examples 6–7); and

(b) Paragraph AG111 of [draft] IPSAS [X] (ED 70) on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 8).

Example 5—Collectability of the Consideration

IE17. A local government has a portfolio of properties that are rented below-market prices to qualifying residents (Residents). After a number of years, a Resident is able to purchase the unit as part of a rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20-years, but once Residents have reached the age when they start to collect their superannuation, payments may cease depending on the Resident's level of income at that time. Upon the inception of the binding arrangement to purchase the unit, a Resident is required to pay a non-refundable deposit of CU5,000 and enter into a long-term financing agreement with the local government for the remaining balance of the promised consideration. In addition, the Resident obtains control of the building at the inception of the binding arrangement.

IE18. As part of this rent-to-own program, the local government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the local government, so the purchase price for the unit was CU250,000. The Resident pays the non-refundable deposit of CU5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the local government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.

IE19. In assessing whether the binding arrangement meets the criteria in paragraph 8 of [draft] IPSAS [X] (ED70), the local government concludes that the criterion in paragraph 8(e) of [draft] IPSAS [X] (ED 70) is not met for the full CU250,000 because it is not probable that it will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the local government observes that the Resident may only pay up to CU180,000 based on the terms of the program.

IE20. Because the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) are not met, the local government applies paragraphs 13–15 of [draft] IPSAS [X] (ED 70) to determine the accounting for the non-refundable deposit of CU5,000. The local government observes that the events described in paragraph 14(a) have occurred—that is, the local government has transferred control of the building to the Resident, and the local government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable.

Consequently, in accordance with paragraph 14, the local government recognizes the non-refundable CU5,000 payment as revenue upon receipt.

Example 6—Consideration is not the Stated Price—Implicit Price Concession

IE21. A government pharmaceutical agency (the Agency) provides 1,000 units of a prescription drug to a hospital for promised consideration of CU1 million. The price of the drugs is regulated, so the Agency has no discretion on pricing. The Agency expects that it will not be able to collect from the hospital the full amount of the promised consideration due to a medical crisis occurring in the region which is diverting the hospital's resources.

IE22. When assessing whether the criterion in paragraph 8(e) of [draft] IPSAS [X] (ED 70) is met, the Agency also considers paragraphs 46 and 51(b) of [draft] IPSAS [X] (ED 70). Based on the assessment of the facts and circumstances, the Agency determines that it expects to provide a price concession and accept a lower amount of consideration from the hospital. Accordingly, the Agency concludes that the transaction price is not CU1 million and, therefore, the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE23. The Agency considers the hospital's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the hospital. Consequently, the Agency concludes that the criterion in paragraph 8(e) of [draft] IPSAS [X] (ED 70) is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the Agency concludes that the other criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction price of CU400,000, in accordance with the requirements in [draft] IPSAS [X] (ED 70).

Example 7—Implicit Price Concession

IE24. A government hospital provides medical services to an uninsured patient in the emergency room. The hospital is required by law to provide medical services to all emergency room patients. Because of the patient's condition upon arrival at the hospital, the hospital was compelled under legislation to provide the services immediately and, therefore, before the government hospital can determine whether the patient is committed to perform its obligations under the binding arrangement in exchange for the medical services provided. Consequently, the binding arrangement does not meet the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) and, in accordance with paragraph 13 of [draft] IPSAS [X] (ED 70), the hospital will continue to assess its conclusion based on updated facts and circumstances.

IE25. After providing services, the hospital obtains additional information about the patient including a review of the services provided, standard rates for such services and the patient's ability and intention to pay the hospital for the services provided. During the review, the hospital notes its standard rate for the services provided in the emergency room is CU10,000. The hospital also reviews the patient's information and to be consistent with its policies designates the patient to a purchaser class based on the hospital's assessment of the patient's ability and intention to pay.

IE26. Before reassessing whether the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) have been met, the hospital considers paragraphs 46 and 51(b) of [draft] IPSAS [X] (ED 70). Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient),

the hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the hospital concludes that the transaction price is not CU10,000 and, therefore, the promised consideration is variable. The hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The hospital estimates the variable consideration and determines that it expects to collect CU1,000.

IE27. In accordance with paragraph 8(e) of [draft] IPSAS [X] (ED 70), the hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the hospital concludes it is probable that the hospital will collect CU1,000 (which is the estimate of variable consideration). In addition, on the basis of an assessment of the binding arrangement terms and other facts and circumstances, the hospital concludes that the other criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) are also met. Consequently, the hospital accounts for the binding arrangement with the patient, at a transaction price of CU1,000, in accordance with the requirements in [draft] IPSAS [X] (ED 70).

Example 8—Reassessing the Criteria for Identifying a Binding Arrangement

IE28. The Department of Natural Resources (the Department) issues a permit to mine minerals to a private sector mining company in exchange for a royalty based on the amount of minerals extracted. At the inception of the binding arrangement, the binding arrangement meets all the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) and the Department accounts for the binding arrangement with the mining company in accordance with the requirements in [draft] IPSAS [X] (ED 70). The Department recognizes revenue when the mining company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG111 of [draft] IPSAS [X] (ED 70).

IE29. Throughout the first year of the binding arrangement, the mining company provides quarterly extraction reports and pays within the agreed-upon period.

IE30. During the second year of the binding arrangement, the mining company continues to extract minerals from the property, but its financial condition declines. The mining company's current access to credit and available cash on hand are limited. The Department continues to recognize revenue on the basis of the mining company's extraction throughout the second year. The mining company pays the first quarter's royalties but does not pay the full royalty payments for the usage of the permit in Quarters 2–4. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

IE31. During the third year of the binding arrangement, the mining company continues to use the permit issued by the Department. However, the Department learns that the mining company has lost access to credit and its major customers, and thus the company's ability to pay significantly deteriorates. The Department therefore concludes that it is unlikely that the mining company will be able to make any further royalty payments for ongoing usage of the mining permit. As a result of this significant change in facts and circumstances, in accordance with paragraph 12 of [draft] IPSAS [X] (ED 70), the Department reassesses the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) and determines that they are not met because it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the mining company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

Modifications of a Binding Arrangement

IE32. Examples 9–13 illustrate the requirements in paragraphs 17–20 of [draft] IPSAS [X] (ED 70) on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 21–29 of [draft] IPSAS [X] (ED 70) on identifying performance obligations (Examples 11–12);

(b) Paragraphs 55–57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration (Examples 10 and 12–13); and

(c) Paragraphs 86–89 of [draft] IPSAS [X] (ED 70) on changes in the transaction price (Example 10).

Example 9—Modification of a Binding Arrangement for Goods

IE33. An intergovernmental organization (the Organization) promises to provide 1.2 million text books to a national government for CU12 million (CU10 per text book). The text books are transferred to the government over a six-month period. The CU12 million is funded by the Organization's donors. The Organization transfers control of each text book at a point in time. After the Organization has transferred control of 600,000 text books to the government, the binding arrangement is modified to require the delivery of an additional 300,000 text books (a total of 1.5 million identical text books) to the government. The additional 300,000 text books were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Price

IE34. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 text books is an additional CU2.85 million or CU9.5 per text book. The pricing for the additional text books reflects the stand-alone price of the text books at the time of the modification to a binding arrangement and the additional text books are distinct (in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70)) from the original text books.

IE35. In accordance with paragraph 19 of [draft] IPSAS [X] (ED 70), the modification to a binding arrangement for the additional 300,000 text books is, in effect, a new and separate binding arrangement for future text books that does not affect the accounting for the existing binding arrangement. The Organization recognizes revenue of CU10 per text book for the 1.2 million text books in the original binding arrangement and CU9.5 per text book for the 300,000 text books in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Price

IE36. During the process of negotiating the purchase of an additional 300,000 text books, the parties initially agree on a price of CU8.0 per text book. However, the government and the donors discover that the initial 600,000 text books provided by the Organization contained minor misprints. The Organization promises a partial credit of CU1.5 per text book to compensate the donors for the poor quality of those text books. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 text books) into the amount that the Organization will require for the additional 300,000 text books. Consequently, the modification to a binding arrangement specifies that the price of the additional 300,000 text books is CU1.5

million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 text books of CU2.4 million, or CU8.0 per text book, less the credit of CU900,000.

IE37. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction price and, therefore, as a reduction of revenue for the initial 600,000 text books transferred. In accounting for the sale of the additional 300,000 text books, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone price of the additional text books. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 19 of [draft] IPSAS [X] (ED 70) to be accounted for as a separate binding arrangement. Because the remaining text books to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 20(a) of [draft] IPSAS [X] (ED 70) and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE38. Consequently, the amount recognized as revenue for each of the remaining text books is a blended price of CU9.33 {[(CU10 × 600,000 text books not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 text books to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining text books}.

Example 10—Change in the Transaction Price after a Modification of a Binding Arrangement

IE39. On July 1, 20X0, the Department of Defense (the Department) promises to transfer two distinct used military products, light-armored vehicles and spare parts, to a foreign government. The light-armored vehicle transfers to the foreign government at the inception of the binding arrangement and spare parts transfers on March 31, 20X1. The consideration promised by the foreign government includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction price because it concludes that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

IE40. The transaction price of CU1.2 million is allocated equally to the performance obligation for the light-armored vehicle and the performance obligation for spare parts. This is because both products have the same stand-alone prices and the variable consideration does not meet the criteria in paragraph 84 that requires allocation of the variable consideration to one but not both of the performance obligations.

IE41. When the light-armored vehicle transfers to the foreign government at the inception of the binding arrangement, the Department recognizes revenue of CU600,000.

IE42. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to the foreign government on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone price of ammunition. The stand-alone price of ammunition is the same as the stand-alone prices of the light-armored vehicle and spare parts.

IE43. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which had transferred to the foreign government before the modification, and the promised consideration for the ammunition does not represent its stand-alone price. Consequently, in accordance with

paragraph 20(a) of [draft] IPSAS [X] (ED 70), the consideration to be allocated to the remaining performance obligations comprises the consideration that had been allocated to the performance obligation for spare parts (which is measured at an allocated transaction price amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction price for the modified binding arrangement is CU900 and that amount is allocated equally to the performance obligation for spare parts and the performance obligation for ammunition (i.e., CU450,000 is allocated to each performance obligation).

IE44. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the change in estimate of the variable consideration can be included in the transaction price, because it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 20(a) of [draft] IPSAS [X] (ED 70), the increase in the transaction price of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 89 of [draft] IPSAS [X] (ED 70), the change in the transaction price is allocated to the performance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes revenue of CU20,000 for the light-armored vehicle in the period in which the change in the transaction price occurs. Because the spare parts had not transferred to the foreign government before the modification to a binding arrangement, the change in the transaction price that is attributable to spare parts is allocated to the remaining performance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 20(a) of [draft] IPSAS [X] (ED 70) if that amount of variable consideration had been estimated and included in the transaction price at the time of the modification of a binding arrangement.

IE45. The Department then also allocates the CU20,000 increase in the transaction price for the modified binding arrangement equally to the performance obligations for spare parts and ammunition. This is because the products have the same stand-alone prices and the variable consideration does not meet the criteria in paragraph 84 that require allocation of the variable consideration to one but not both of the performance obligations. Consequently, the amount of the transaction price allocated to the performance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE46. On March 31, 20X1, the spare parts are transferred to the foreign government and the Department recognizes revenue of CU460,000. On June 30, 20X1, the ammunition is transferred to the foreign government and the Department recognizes revenue of CU460,000.

Example 11—Modification of a Binding Arrangement of Services

IE47. A government shared facilities management services agency (the Agency) enters into a three-year binding arrangement with the Department of Education (the Department) to provide regular maintenance services to schools on a weekly basis. The Department promises to pay CU10 million per year. The stand-alone price of the maintenance services at the inception of the binding arrangement is also CU10 million per year. The Agency recognizes revenue of CU10 million per year during the first two years of providing services. At the end of the second

year, the binding arrangement is modified and the fee for the third year is reduced due to budget cuts at the Department to CU8 million. In addition, the Department agrees to extend the binding arrangement for three additional years for consideration of CU20 million payable in three equal annual instalments of CU6,666,667 at the beginning of years 4, 5 and 6. After the modification, the binding arrangement has four years remaining in exchange for total consideration of CU28 million. The stand-alone price of the services at the beginning of the third year is CU8 million per year. The Agency's stand-alone price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone price of the multi-year binding arrangement (i.e., the stand-alone price is 4 years × CU8 million per year = CU32 million).

IE48. At the inception of the binding arrangement, the Agency assesses that each week of maintenance service is distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). Notwithstanding that each week of maintenance service is distinct, the Agency accounts for the binding arrangement for maintenance services as a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70). This is because the weekly maintenance services are a series of distinct services that are substantially the same and have the same pattern of transfer to the Department (the services are performed for the Department over time and use the same method to measure progress—that is, a time-based measure of progress).

IE49. At the date of the modification, the Agency assesses the remaining services to be provided and concludes that they are distinct. However, the amount of remaining consideration to be paid (CU28 million) does not reflect the stand-alone price of the services to be provided (CU32 million).

IE50. Consequently, the Agency accounts for the modification in accordance with paragraph 20(a) of [draft] IPSAS [X] (ED 70) as a termination of the original binding arrangement and the creation of a new binding arrangement with consideration of CU28 million for four years of maintenance service. The Agency recognizes revenue of CU7 million per year (CU28 million ÷ 4 years) as the maintenance services are provided over the remaining four years.

Example 12—Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

IE51. The Department of Public Works (Public Works) enters into a binding arrangement to construct a residential building for the Department of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. Public Works accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph 34(b) of [draft] IPSAS [X] (ED 70) because Housing controls the building during construction. At the inception of the of the binding arrangement, Public Works expects the following:

	CU
Transaction price	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE52. At the inception of the binding arrangement, Public Works excludes the CU2 million bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE53. Public Works determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation. By the end of the first year, Public Works has satisfied 60 percent of its performance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). Public Works reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 55–57 of [draft] IPSAS [X] (ED 70). Consequently, the cumulative revenue and costs recognized for the first year are as follows:

	CU
Revenue	6,000,000
Costs	5.400,000
Surplus	600,000

IE54. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU1.5 million and CU1.2 million, respectively. Total potential consideration after the modification is CU13.5 million (CU11.5 million fixed consideration + CU2 million completion bonus). In addition, the allowable time for achieving the CU2 million bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Public Works concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 55 of [draft] IPSAS [X] (ED 70) and includes the CU2 million in the transaction price. In assessing the modification to a binding arrangement, the entity evaluates paragraph 26(b) of [draft] IPSAS [X] (ED 70) and concludes (on the basis of the factors in paragraph 28 of [draft] IPSAS [X] (ED 70)) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single performance obligation.

IE55. Consequently, Public Works accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 20(b) of [draft] IPSAS [X] (ED 70)). Public Works updates its measure of progress and estimates that it has satisfied 52.9 percent of its performance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). Public Works recognizes additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction price) – CU6 million revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Example 13—Unapproved Change in Scope and Price

IE56. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Housing (Housing) to construct a building on land owned by Housing. The binding arrangement states that Housing will provide Public Works with access to the land within 30 days of inception of the binding arrangement. However, Public Works was not provided access until 120 days after inception of the binding arrangement because of storm damage to the site that occurred after inception of the binding arrangement. The binding arrangement specifically identifies any delay (including force majeure) in Public Works' access to purchaser-owned land as an event that entitles Public Works to compensation that is equal to actual costs incurred as a direct result of the delay. Public Works is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the binding arrangement and prepares a claim. Housing initially disagreed with the claim.

IE57. Public Works assesses the legal basis of the claim and determines, on the basis of the underlying terms of the binding arrangement, that it has enforceable rights. Consequently, it accounts for the claim as a modification to a binding arrangement in accordance with paragraphs 17–20 of [draft] IPSAS [X] (ED 70). The modification does not result in any additional goods and services being provided to Housing. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, Public Works accounts for the modification in accordance with paragraph 20(b) of [draft] IPSAS [X] (ED 70) by updating the transaction price and the measure of progress towards complete satisfaction of the performance obligation. Public Works considers the constraint on estimates of variable consideration in paragraphs 55–57 of [draft] IPSAS [X] (ED 70) when estimating the transaction price.

Step 2: Identifying Performance Obligations

IE58. Examples 14–16 illustrate the requirements in paragraphs 21–29 of [draft] IPSAS [X] (ED 70) on identifying performance obligations.

Example 14—Goods and Services are not Distinct

Case A—Significant Integration Service

IE59. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Health to build a hospital. Public Works is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE60. The promised goods and services are capable of being distinct in accordance with paragraph 26(a) of [draft] IPSAS [X] (ED 70). That is, the Department of Health can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Department of Health could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE61. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70) (on the basis of the factors in paragraph 28 of [draft] IPSAS [X] (ED 70)). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE62. Because both criteria in paragraph 26 of [draft] IPSAS [X] (ED 70) are not met, the goods and services are not distinct. Public Works accounts for all of the goods and services in the binding arrangement as a single performance obligation.

Case B—Significant Integration Service

IE63. The Department of Research Sciences (the Department) enters into a binding arrangement with a local government that will result in the delivery of multiple highly complex, specialized road trains. The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the local government, based on a custom design that is owned by the local government and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE64. The Department assesses the promises in the binding arrangement and determines that each of the promised road trains is capable of being distinct in accordance with paragraph 26(a) of [draft] IPSAS [X] (ED 70) because the local government can generate economic benefits or service potential from each road train on its own. This is because each road train can function independently of the other road trains.

IE65. The Department observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which the local government has entered into a binding arrangement in accordance with the local government's specifications. The Department considers that it is responsible for overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output) and, therefore, the road trains and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 26(b) and paragraph 28 of [draft] IPSAS [X] (ED 70). In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the local government. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is not met, the goods and services that will be provided by the Department are not separately identifiable and, therefore, are not distinct. The Department accounts for all of the goods and services promised in the binding arrangement as a single performance obligation.

Example 15—Determining whether Goods or Services are Distinct

Case A—Distinct Goods or Services

IE66. A government shared IT services agency (the Agency) enters into a binding arrangement with a state government (State Government) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The Agency provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE67. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Agency observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The State Government can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the Agency concludes that the State Government can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is met.

IE68. The Agency also considers the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70) and determines that the promise to transfer each good and service to the State Government is separately identifiable from each of the other promises (thus the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is met). In reaching this determination, the Agency considers that, although it integrates the software into the State Government's system, the installation services do not significantly affect the State Government's ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the State Government's ability to use and benefit or receive service potential from the software license during the license period. The Agency further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the Agency concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to fulfill its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE69. On the basis of this assessment, the Agency identifies four performance obligations in the binding arrangement for the following goods or services:

(a) The software license;

(b) An installation service;

(c) Software updates; and

(d) Technical support.

IE70. The Agency applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether each of the performance obligations for the installation service, software updates and technical

support are satisfied at a point in time or over time. The Agency also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG105 of [draft] IPSAS [X] (see Example 54 in paragraphs IE312–IE313).

Case B—Significant Customization

IE71. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the State Government. The customized installation service can be provided by other entities.

IE72. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Agency first assesses whether the criterion in paragraph 26(a) has been met. For the same reasons as in Case A, the Agency determines that the software license, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph 26(b) has been met by evaluating the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70). The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the binding arrangement (see paragraph 28(a) of [draft] IPSAS [X] (ED 70)). The software is significantly modified and customized by the service (see paragraph 28(b) of [draft] IPSAS [X] (ED 70)). Consequently, the Agency determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is not met. Thus, the software license and the customized installation service are not distinct.

IE73. On the basis of the same analysis as in Case A, the Agency concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE74. On the basis of this assessment, the Agency identifies three performance obligations in the binding arrangement for the following goods or services:

(a) Software customization (which comprises the license for the software and the customized installation service);

(b) Software updates; and

(c) Technical support.

IE75. The Agency applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether each performance obligation is satisfied at a point in time or over time.

Case C—Promises are Separately Identifiable (Installation)

IE76. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE77. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 26 of [draft] IPSAS [X] (ED 70) to determine whether each promised good or service is distinct. The Agency determines that the equipment and the installation each meet the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70). The State Government can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The State Government also can generate economic benefits or service potential from the installation services together with other resources that the State Government will already have obtained from the Agency (i.e., the equipment).

IE78. The Agency further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70)). The Agency considers the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70) in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 28 of [draft] IPSAS [X] (ED 70) contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to fulfill its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the State Government can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to fulfill its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE79. On the basis of this assessment, the Agency identifies two performance obligations in the contract for the following goods or services:

(i) The equipment; and

(ii) Installation services.

IE80. The Agency applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE81. Assume the same facts as in Case C, except that the State Government is required to use the Agency's installation services in the binding arrangement.

IE82. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is

because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to use the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70)) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable, i.e., they each meet the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70). The Agency's analysis in this regard is consistent with that in Case C.

Case E—Promises are Separately Identifiable (Consumables)

IE83. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE84. The Agency determines that the State Government can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 27 of [draft] IPSAS [X] (ED 70), because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The State Government can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement together with the delivered equipment that is transferred to the State Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 26(a) of [draft] IPSAS [X] (ED 70).

IE85. The Agency determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70). In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the Agency considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the Agency concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the State Government can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to fulfill each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to fulfill its promise to transfer the equipment even if the State Government did not purchase any consumables and would be able to fulfill its promise to provide the consumables, even if the State Government acquired the equipment separately.

IE86. On the basis of this assessment, the Agency identifies two performance obligations in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) The consumables.

IE87. The Agency applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether each performance obligation is satisfied at a point in time or over time.

Example 16—Explicit and Implicit Promises in a Binding Arrangement

IE88. A government entity (the Government) with the objective of providing broadband internet services to citizens in rural areas provides modem equipment to a telecommunications company (Telecom) (i.e., the Government's purchaser) who will then resell it to members of the public (i.e., the Telecom's customers) for below-market prices.

Case A—Explicit Promise of Service

IE89. In the binding arrangement with the Telecom, the Government promises to provide maintenance services for no additional consideration (i.e., 'free') to any end customer (i.e., members of the public) who purchased the modem from the Telecom. The Government outsources the performance of the maintenance services to the Telecom and pays the Telecom an agreed-upon amount for providing those services on the Government's behalf. If the end customer does not use the maintenance services, the Government is not obligated to pay the Telecom.

IE90. The binding arrangement with the Telecom includes two promised goods or services—(a) the modem and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the Government and the Telecom. The Government assesses whether each good or service is distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Government determines that both the product and the maintenance services meet the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70). The Government provides the modem on a stand-alone basis, which indicates that the Telecom can generate economic benefits or service potential from the modem on its own. The Telecom can generate economic benefits or service potential from the maintenance services together with a resource the Telecom already has obtained from the Government (i.e., the modem).

IE91. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70) on the basis of the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70). The modem and the maintenance services are not inputs to a combined item in the binding arrangement. The Government is not providing a significant integration service because the presence of the modem and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the modem nor the services modify or customize the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to fulfill each of the promises in the binding arrangement independently of its efforts to fulfill the other (i.e., the Government would be able to transfer the modem even if the Telecom (through the individual end customers) declined maintenance services and would be able to provide maintenance services in relation to modems provided previously through other distributors). The Government also observes, in applying the principle in paragraph 28 of [draft] IPSAS [X] (ED 70), that the Government's promise to provide maintenance is not necessary for the product to continue to provide significant economic benefits or service potential to the Telecom. Consequently, the Government allocates a portion of the transaction price to each of the two performance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

Case B—Implicit Promise of Service

IE92. Continuing with the fact pattern in Case A, the Government has historically provided maintenance services for no additional consideration (i.e., 'free') to end customers in rural areas who purchased the Government's modem from the Telecom. The Government is now rolling out a similar program to urban areas. During the negotiations on this new urban program, the Government does not explicitly promise maintenance services during negotiations with the Telecom and the final binding arrangement between the Government and the Telecom does not specify terms or conditions for those services.

IE93. However, on the basis of its customary practice, the Government determines at the inception of the new binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the Telecom. That is, the Government's past practices of providing these services in rural areas create valid expectations of the Government's purchasers (i.e., the Telecom) in accordance with paragraph 23 of [draft] IPSAS [X] (ED 70). Consequently, the Government assesses whether the promise of maintenance services is a performance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate performance obligations.

Case C—Services are not a Promised Service

IE94. As a further variation from Cases A and B, in the binding arrangement with the Telecom, the Government does not promise to provide any maintenance services. In addition, the Government typically does not provide maintenance services and, therefore, the Government's customary practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The Government transfers control of the modem to the Telecom and, therefore, the binding arrangement is completed. However, before the sale to the Telecom's end customers, the Government makes an offer to provide maintenance services to any party that purchases the modem from the Telecom for no additional promised consideration.

IE95. The promise of maintenance is not included in the binding arrangement between the Government and the Telecom at the inception of the binding arrangement. That is, in accordance with paragraph 23 of [draft] IPSAS [X] (ED 70), the Government does not explicitly or implicitly promise to provide maintenance services to the Telecom or the end customers. Consequently, the Government does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

IE96. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with Telecom or other telecommunications companies, the Government would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Step 5: Performance Obligations Satisfied Over Time

IE97. Examples 17–21 illustrate the requirements in paragraphs 34–36 and AG43–AG54 of [draft] IPSAS [X] (ED 70) on performance obligations satisfied over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 34(a) and AG44–AG45 of [draft] IPSAS [X] (ED 70) on when a purchaser simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Examples 17–18);

(b) Paragraphs 34(c) and 35–36 and AG47–AG54 of [draft] IPSAS [X] (ED 70) on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to payment for performance completed to date (Examples 18–21); and

(c) Paragraph 37 of [draft] IPSAS [X] (ED 70) on performance obligations satisfied at a point in time (Example 21).

Example 17—Purchaser Simultaneously Receives and Consumes the Economic Benefits or Service Potential

IE98. A public payroll service center (the Payroll Center) enters into a binding arrangement to provide monthly payroll processing services to a local government's Department of Education (the Department) for one year.

IE99. The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70). The performance obligation is satisfied over time in accordance with paragraph 34(a) of [draft] IPSAS [X] because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. (The Payroll Center disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The Payroll Center recognizes revenue over time by measuring its progress towards complete satisfaction of that performance obligation in accordance with paragraphs 38–44 and AG55–AG60 of [draft] IPSAS [X] (ED 70).

Example 18—Assessing Alternative Use and Right to Payment

IE100. The Office of the Auditor General (the Auditor) enters into a binding arrangement with a government agency (the Agency) to provide financial statement audit services that result in the Auditor providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Agency to compensate the Auditor for its costs incurred.

IE101. The Auditor considers the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) and the requirements in paragraphs AG44 and AG45 of [draft] IPSAS [X] (ED 70) to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its obligation and the Agency hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of the Auditor's performance only when the Agency

receives the audit opinion. Consequently, the Auditor concludes that the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) is not met.

IE102. However, the Auditor's performance obligation meets the criterion in paragraph 34(c) of [draft] IPSAS [X] (ED 70) and is a performance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 35 and AG47–AG49 of [draft] IPSAS [X] (ED 70), the development of the audit opinion does not create an asset with alternative use to the Auditor because the audit relates to facts and circumstances that are specific to the Agency. Therefore, the Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 36 and AG50–AG54 of [draft] IPSAS [X] (ED 70), the Auditor has an enforceable right to payment for its performance completed to date for its costs.

IE103. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the performance obligation in accordance with paragraphs 38–44 and AG55–AG60 of [draft] IPSAS [X] (ED 70).

Example 19—Asset has no Alternative Use to the Entity

IE104. The Department of Space Sciences (the Department) enters into a binding arrangement with a government-owned telecommunications agency (the Telecom) to build a specialized satellite. The Department builds satellites for various purchasers, such as other government agencies and departments, as well as commercial entities. The design and construction of each satellite differ substantially, on the basis of each purchaser's needs and the type of technology that is incorporated into the satellite.

IE105. At the inception of the binding arrangement, the Department assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph 34 of [draft] IPSAS [X] (ED 70).

IE106. As part of that assessment, the Department considers whether the satellite in its completed state will have an alternative use to the Department. Although the binding arrangement does not preclude the Department from directing the completed satellite to another purchaser, the Department would incur significant costs to rework the design and function of the satellite to direct it to another purchaser. Consequently, the satellite has no alternative use to the Department (see paragraphs 34(c), 35 and AG47–AG49 of [draft] IPSAS [X] (ED 70) because the purchaser-specific design of the satellite limits the entity's practical ability to readily direct the satellite to another purchaser.

IE107. For the Department's performance obligation to be satisfied over time when building the satellite, paragraph 34(c) of [draft] IPSAS [X] (ED 70) also requires the Department to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

Example 20—Enforceable Right to Payment for Performance Completed to Date

IE108. An intergovernmental organization (the Organization) enters into a binding arrangement with a donor to build a water tower for a local government. The payment schedule in the binding arrangement specifies that the donor must make an advance payment at the inception of the binding arrangement of 10 percent of the agreed cost of the water tower, regular payments

throughout the construction period (amounting to 50 percent of the agreed cost of the water tower) and a final payment of 40 percent after it is completed and the water tower has passed the prescribed performance tests. The payments are non-refundable unless the Organization fails to perform as promised. If the donor terminates the binding arrangement, the Organization is entitled only to retain any progress payments received from the donor. The Organization has no further rights to compensation from the donor.

IE109. At the inception of the binding arrangement, the Organization assesses whether its performance obligation to build the water tower is a performance obligation satisfied over time in accordance with paragraph 34 of [draft] IPSAS [X] (ED 70).

IE110. As part of that assessment, the Organization considers whether it has an enforceable right to payment for performance completed to date in accordance with paragraphs 34(c), 36 and AG50 – AG54 of [draft] IPSAS [X] (ED 70) if the donor were to terminate the binding arrangement for reasons other than the Organization's failure to perform as promised. Even though the payments made by the donor are non-refundable, the cumulative amount of those payments is not expected, at all times throughout the binding arrangement, to at least correspond to the amount that would be necessary to compensate the Organization for performance completed to date. This is because at various times during construction the cumulative amount of consideration paid by the donor might be less than the price of the partially completed water tower at that time. Consequently, the Organization does not have a right to payment for performance completed to date.

IE111. Because the Organization does not have a right to payment for performance completed to date, the Organization's performance obligation is not satisfied over time in accordance with paragraph 34(c) of [draft] IPSAS [X] (ED 70). Accordingly, the Organization does not need to assess whether the equipment would have an alternative use to the Organization. The Organization also concludes that it does not meet the criteria in paragraph 34(a) or (b) of [draft] IPSAS [X] (ED 70) and thus, the entity accounts for the construction of the water tower as a performance obligation satisfied at a point in time in accordance with paragraph 37 of [draft] IPSAS [X] (ED 70).

Example 21—Assessing Whether a Performance Obligation is Satisfied at a Point in Time or Over Time

IE112. The Department of Public Works (Public Works) is developing multi-unit residential complexes to be sold to the Department of Housing (Housing) as well as a variety of commercial entities. Housing enters into a binding arrangement with Public Works for specified units that are under construction. These units have a similar floor plan and are of a similar size, but other attributes of the units are different (for example, the location of the units within the complex).

Case A—Entity does not have an Enforceable Right to Payment for Performance Completed to Date

IE113. Housing pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Public Works fails to complete construction of the units in accordance with the binding arrangement. The remainder of the binding arrangement price is payable on completion of the binding arrangement when Housing obtains physical possession of the units. If Housing defaults on the binding arrangement before completion of the units, Public Works only has the right to retain the deposit.

IE114. At the inception of the binding arrangement, Public Works applies paragraph 34(c) of [draft] IPSAS [X] (ED 70) to determine whether its promise to construct and transfer the units to Housing is a performance obligation satisfied over time. Public Works determines that it does not have an enforceable right to payment for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by Housing. Because Public Works does not have a right to payment for work completed to date, its performance obligation is not a performance obligation satisfied over time in accordance with paragraph 34(c) of [draft] IPSAS [X] (ED 70). Instead, Public Works accounts for the sale of the units as performance obligations satisfied at a point in time in accordance with paragraph 37 of [draft] IPSAS [X] (ED 70).

Case B—Entity has an Enforceable Right to Payment for Performance Completed to Date

IE115. Housing pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the units. The binding arrangement has substantive terms that preclude Public Works from being able to direct the units to another purchaser. In addition, Housing does not have the right to terminate the binding arrangement unless Public Works fails to perform as promised. If Housing defaults on its obligations by failing to make the promised progress payments as and when they are due, Public Works would have a right to all of the consideration promised in the binding arrangement if it completes the construction of the units. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its obligations under the binding arrangement.

IE116. At the inception of the binding arrangement, Public Works applies paragraph 34(c) of [draft] IPSAS [X] (ED 70) to determine whether its promise to construct and transfer the units to Housing is a performance obligation satisfied over time. Public Works determines that the units it creates does not have an alternative use to Public Works because the binding arrangement precludes Public Works from transferring the specified units to another purchaser. Public Works does not consider the possibility of a termination of a binding arrangement in assessing whether it is able to direct the units to another purchaser.

IE117. Public Works also has a right to payment for performance completed to date in accordance with paragraphs 36 and AG50–AG54 of [draft] IPSAS [X] (ED 70). This is because if Housing were to default on its obligations, Public Works would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.

IE118. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to payment for performance completed to date. Consequently, the criteria in paragraph 34(c) of [draft] IPSAS [X] (ED 70) are met and Public Works has a performance obligation that it satisfies over time. To recognize revenue for that performance obligation satisfied over time, Public Works measures its progress towards complete satisfaction of its performance obligation in accordance with paragraphs 38–44 and AG55–AG60 of [draft] IPSAS [X] (ED 70).

IE119. In the construction of a multi-unit residential complex, Public Works may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Public Works would account for each binding arrangement separately. However, depending on the nature of the construction, Public Work’s performance in undertaking the initial construction work (i.e., the foundation and the basic structure), as well as the construction

of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its performance obligations in each binding arrangement.

Case C—Entity has an Enforceable Right to Payment for Performance Completed to Date, but Binding Arrangement can be Cancelled

IE120. The same facts as in Case B apply to Case C, except that in the event of a default by Housing, either Public Works can require Housing to perform as required under the binding arrangement or Public Works can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.

IE121. Notwithstanding that Public Works could cancel the binding arrangement (in which case Housing's obligation to Public Works would be limited to transferring control of the partially completed units to Public Works and paying the penalty prescribed), Public Works has a right to payment for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Public Works may choose to cancel the binding arrangement in the event Housing defaults on its obligations would not affect that assessment (see paragraph AG52 of [draft] IPSAS [X] (ED 70)), provided that Public Work's rights to require Housing to continue to perform as required under the binding arrangement (i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

IE122. Examples 22–23 illustrate the requirements in paragraphs 38–44 of [draft] IPSAS [X] (ED 70) on measuring progress towards complete satisfaction of a performance obligation satisfied over time. Example 23 also illustrates the requirements in paragraph AG60 of [draft] IPSAS [X] (ED 70) on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a performance obligation.

Example 22—Measuring Progress when Making Goods or Services Available

IE123. A local government owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.

IE124. The local government determines that its promise to the member of the public is to provide a service of making the pools available for the member of the public to use as and when the member of the public wishes. This is because the extent to which the member of the public uses the pools does not affect the amount of the remaining goods and services to which the member of the public is entitled. The local government concludes that the member of the public simultaneously receives and consumes the benefits or service potential of the local government's performance as it performs by making the pools available. Consequently, the local government's performance obligation is satisfied over time in accordance with paragraph 34(a) of [draft] IPSAS [X] (ED 70).

IE125. The local government also determines that the member of the public consumes benefits or service potential from the local government making the pools available throughout the year. (That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses it or not.) Consequently, the local government concludes that the best

measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure and it recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Example 23—Uninstalled Materials

IE126. In November, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for total consideration of CU5 million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Public Works determines that it acts as a principal in accordance with paragraphs AG77–AG85 of [draft] IPSAS [X] (ED 70), because it obtains control of the elevators before they are transferred to the other department.

IE127. A summary of the transaction price and expected costs is as follows:

	CU
Transaction price	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

IE128. Public Works uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. Public Works assesses whether the costs incurred to procure the elevators are proportionate to the Public Work's progress in satisfying the performance obligation, in accordance with paragraph AG60 of [draft] IPSAS [X] (ED 70). The other department obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the performance obligation (CU4 million). Public Works is not involved in designing or manufacturing the elevators.

IE129. Public Works concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, in accordance with paragraph AG60 of [draft] IPSAS [X] (ED 70), Public Works adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. Public Works recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE130. As of December 31, 20X2, Public Works observes that:

(a) Other costs incurred (excluding elevators) are CU500,000; and

(b) Performance is 20 percent complete (i.e., CU500,000 ÷ CU2,500,000).

IE131. Consequently, at December 31, 20X2, Public Works recognizes the following:

	CU	
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	200,000	

(A) Revenue recognized is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction price – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Step 3: Determining the Transaction Price

Variable Consideration

IE132. Examples 24–25 illustrate the requirements in paragraphs 49–53 of [draft] IPSAS [X] (ED 70) on identifying variable consideration.

Example 24—Penalty Gives Rise to Variable Consideration

IE133. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Transportation (Transportation) to build a highway for CU10 million. In addition, the terms of the binding arrangement include a penalty of CU1 million if the construction is not completed within three months of a date specified in the binding arrangement.

IE134. Public Works concludes that the consideration promised in the binding arrangement includes a fixed amount of CU10 million and a variable amount of CU1 million (arising from the penalty).

IE135. Public Works estimates the variable consideration in accordance with paragraphs 49–53 of [draft] IPSAS [X] (ED 70) and considers the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration.

Example 25—Estimating Variable Consideration

IE136. The Department of Public Works (Public Works) enters into a binding arrangement with a Department of Transportation (Transportation) to build a bridge. The promise to transfer the bridge is a performance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE137. In addition, upon completion of the bridge, a third party will inspect the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE138. In determining the transaction price, Public Works prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 52 of [draft] IPSAS [X] (ED 70):

(a) Public Works decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

(b) Public Works decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

IE139. Public Works considers the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction price.

Constraining Estimates of Variable Consideration

IE140. Examples 26 – 28 illustrate the requirements in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining the estimates of variable consideration. In addition, the following requirements are illustrated in these examples:

(a) Paragraph 54 of [draft] IPSAS [X] (ED 70) on refund liabilities (Example 26);

(b) Paragraphs AG61–AG68 of [draft] IPSAS [X] (ED 70) on sales with a right of return (Example 26); and

(c) paragraphs 83–85 of [draft] IPSAS [X] (ED 70) on allocating variable consideration to performance obligations (Example 28).

Example 26—Right of Return

IE141. A public sector procurement agency (the Agency) enters into 100 binding arrangements with other governmental departments. Each binding arrangement relates to the sale of one electric vehicle for CU50,000 (100 total vehicles × CU50,000 = CU5 million total consideration). Cash is received when control of a vehicle transfers. The Agency's customary practice is to allow a department to return Vehicles within 30 days and receive a full refund. The Agency's cost of each product is CU45,000.

IE142. The Agency applies the requirements in [draft] IPSAS [X] (ED 70) to the portfolio of 100 binding arrangements because it reasonably expects that, in accordance with paragraph 3, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual binding arrangements within the portfolio.

IE143. Because the binding arrangement allows the departments to return the vehicles, the consideration received from each department is variable. To estimate the variable consideration to which the Agency will be entitled, the Agency decides to use the expected value method (see paragraph 52(a) of [draft] IPSAS [X] (ED 70) because it is the method that the Agency expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the Agency estimates that 97 products will not be returned.

IE144. The Agency also considers the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of CU4.85 million (CU50,000 × 97 products not expected to be returned)

can be included in the transaction price. The agency considers the factors in paragraph 56 of [draft] IPSAS [X] (ED 70) and determines that although the returns are outside the Agency's influence, it has significant experience in estimating returns for these vehicles from the departments. In addition, the uncertainty will be resolved within a short time frame (i.e., the 30-day return period). Thus, the Agency concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognized (i.e., CU4.85 million) will not occur as the uncertainty is resolved (i.e., over the return period).

IE145. The Agency estimates that the costs of recovering the products will be immaterial and expects that the returned vehicles can be resold at a surplus.

IE146. Upon transfer of control of the 100 vehicles, the Agency does not recognize revenue for the three vehicles that it expects to be returned. Consequently, in accordance with paragraphs 54 and AG62 of [draft] IPSAS [X] (ED 70), the Agency recognizes the following:

(a) Revenue of CU4.85 million (CU50,000 × 97 products not expected to be returned);

(b) A refund liability of CU150,000 (CU50,000 refund × 3 products expected to be returned); and

(c) An asset of CU135,000 (CU45,000 × 3 products for its right to recover vehicles from departments on settling the refund liability).

Example 27—Volume Discount Incentive

IE147. A hospital enters into a binding arrangement with a correctional facility on January 1, 20X8 to provide medical examinations for inmates for CU100 per examination. If more than 10,000 examinations are performed in a calendar year, the binding arrangement specifies that the price is retrospectively reduced to CU90 per examination. Consequently, the consideration in the binding arrangement is variable.

IE148. For the first quarter ended March 31, 20X8, the hospital performs 750 examinations. The hospital estimates that the facility will not exceed the 10,000-examination threshold required for the volume discount in the calendar year.

IE149. The hospital considers the requirements in paragraphs 55–57 of binding arrangement on constraining estimates of variable consideration, including the factors in paragraph 56 of [draft] IPSAS [X] (ED 70). The hospital determines that it has significant experience with the medical examination and with the usage pattern of the correctional facility. Thus, the hospital concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognized (i.e., CU100 per examination) will not occur when the uncertainty is resolved (i.e., when the total amount of purchases is known). Consequently, the hospital recognizes revenue of CU75,000 (750 examinations × CU100 per examination) for the quarter ended March 31, 20X8.

IE150. In May, 20X8, the correctional facility is consolidated with another facility and in the second quarter ended June 30, 20X8 the hospital performs an additional 5,000 examinations. In the light of the new fact, the hospital estimates that the correctional facility's purchases will exceed the 10,000-examination threshold for the calendar year and therefore it will be required to retrospectively reduce the price per examination to CU90.

IE151. Consequently, the hospital recognizes revenue of CU442,500 for the quarter ended June 30, 20X8. That amount is calculated from CU450,000 for providing 5,000 examinations (5,000 examinations × CU90 per examination) less the change in transaction price of CU7,500

(750 examinations × CU10 price reduction) for the reduction of revenue relating to units provided for the quarter ended March 31, 20X8 (see paragraphs 86 and 87 of [draft] IPSAS [X] (ED 70).

Example 28—Management Fees Subject to the Constraint

IE152. On January 1, 20X8, a government shared services agency (the Agency) enters into a binding arrangement with other government departments to manage a fund holding the departments' employee pension plan assets for five years. The Agency receives a 0.2% quarterly management fee based on the departments' assets under management at the end of each quarter. In addition, the Agency receives a performance-based incentive fee of 5 percent of the fund's return in excess of the return of an observable market index over the five-year period. Consequently, both the management fee and the performance fee in the binding arrangement are variable consideration.

IE153. The Agency accounts for the services as a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70), because it is providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the departments over time and use the same method to measure progress—that is, a time-based measure of progress).

IE154. At the inception of the binding arrangement, the Agency considers the requirements in paragraphs 49–53 of [draft] IPSAS [X] (ED 70) on estimating variable consideration and the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration, including the factors in paragraph 56 of [draft] IPSAS [X] (ED 70). The Agency observes that the promised consideration is dependent on the market and thus is highly susceptible to factors outside the Agency's influence. In addition, the incentive fee has a large number and a broad range of possible consideration amounts. The Agency also observes that although it has experience with similar binding arrangements, that experience is of little predictive value in determining the future performance of the market. Therefore, at the inception of the binding arrangement, the Agency cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognized would not occur if the Agency included its estimate of the management fee or the incentive fee in the transaction price.

IE155. At each reporting date, the Agency updates its estimate of the transaction price. Consequently, at the end of each quarter, the Agency concludes that it can include in the transaction price the actual amount of the quarterly management fee because the uncertainty is resolved. However, the Agency concludes that it cannot include its estimate of the incentive fee in the transaction price at those dates. This is because there has not been a change in its assessment from inception of the binding arrangement—the variability of the fee based on the market index indicates that the Agency cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognized would not occur if the Agency included its estimate of the incentive fee in the transaction price. At March 31, 20X8, the client's assets under management are CU100 million. Therefore, the resulting quarterly management fee and the transaction price is CU200,000.

IE156. At the end of each quarter, the Agency allocates the quarterly management fee to the distinct services provided during the quarter in accordance with paragraphs 83(b) and 84 of [draft] IPSAS [X] (ED 70). This is because the fee relates specifically to the Agency's efforts to transfer the services for that quarter, which are distinct from the services provided in other quarters, and the resulting allocation will be consistent with the allocation objective in

paragraph 72 of [draft] IPSAS [X] (ED 70). Consequently, the Agency recognizes CU200,000 as revenue for the quarter ended March 31, 20X8. The Agency would not include the incentive fee included in its estimate of the transaction price until it can conclude that a significant reversal in the cumulative amount of revenue recognized would not occur. Based on the facts and circumstances, the Agency estimates that inclusion of the incentive fee is only likely to occur at the end of the five-year period.

The Existence of a Significant Financing Component in the Binding Arrangement

IE157. Examples 29–33 illustrate the requirements in paragraphs 59–64 of [draft] IPSAS [X] (ED 70) on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 29:

(a) Paragraphs 55–57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration; and

(b) Paragraphs AG61–AG68 of [draft] IPSAS [X] (ED 70) on sales with a right of return.

Example 29—Significant Financing Component and Right of Return

IE158. A government entity (the Government) provides trains to a public sector subway operator (the Operator) for CU121 million that is payable 24 months after delivery. The Operator obtains control of the trains at the inception of the binding arrangement. The binding arrangement permits the Operator to return the trains within 90 days. The trains are new and the Government has no relevant historical evidence of returns or other available market evidence.

IE159. The cash price of the trains is CU100 million, which represents the amount that the Operator would pay upon delivery for the same trains provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The Government's cost of the trains is CU80 million.

IE160. The Government does not recognize revenue when control of the product transfers to the Operator. This is because the existence of the right of return and the lack of relevant historical evidence means that the Government cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur in accordance with paragraphs 55–57 of [draft] IPSAS [X] (ED 70). Consequently, revenue is recognized after three months when the right of return lapses.

IE161. The binding arrangement includes a significant financing component, in accordance with paragraphs 59–61 of [draft] IPSAS [X] (ED 70). This is evident from the difference between the amount of promised consideration of CU121 million and the cash price of CU100 million at the date that the goods are transferred to the Operator.

IE162. The binding arrangement includes an implicit interest rate of 10 percent (i.e., the interest rate that over 24 months discounts the promised consideration of CU121 million to the cash price of CU100 million). The Government evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the Government and the Operator at the inception of the binding arrangement. The following journal entries illustrate how the Government accounts for this binding arrangement in accordance with paragraphs AG61–AG68 of [draft] IPSAS [X] (ED 70):

(a) When the trains are transferred to the Operator, in accordance with paragraph AG62 of [draft] IPSAS [X] (ED 70):

Asset for right to recover trains to be returned	CU80 million[6]
Inventory	CU80 million

(b) During the three-month right of return period, no interest is recognized in accordance with paragraph 64 of [draft] IPSAS [X] (ED 70) because no binding arrangement asset or receivable has been recognized.

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[7]
Revenue	CU100 million
Cost of sales	CU80 million
Asset for trains to be returned	CU80 million

IE163. Until the Government receives the cash payment from the Operator, interest revenue would be recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 30—Withheld Payments on a Long-Term Binding Arrangement

IE164. A Department of Public Works (Public Works) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Public Works throughout the binding arrangement term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Public Works' expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the purchaser throughout the arrangement and paid to Public Works only when the building is complete.

IE165. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Public Works' performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 61(c) of [draft] IPSAS [X] (ED 70). The withholding of a specified percentage of each milestone payment is intended to protect the purchaser from Public Works failing to adequately complete its obligations under the binding arrangement.

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6 This example does not consider expected costs to recover the asset.

7 The receivable recognized would be measured in accordance with IPSAS 41 This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

Example 31—Determining the Discount Rate

IE166. The Department of Communications and Information (the Department) enters into a binding arrangement with a foreign government to provide broadband internet equipment. Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU100 million plus a five percent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU1.89 million.

Case A— Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE167. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

IE168. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Department accounts for the receivable in accordance with IPSAS 41.

Case B— Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE169. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE170. In accordance with paragraph 63 of [draft] IPSAS [X] (ED 70), the Department determines the transaction price by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Department determines that the transaction price is CU84.8 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Department recognizes revenue and a loan receivable for that amount. The Department accounts for the loan receivable in accordance with IPSAS 41.

Example 32—Advance Payment and Assessment of Discount Rate

IE171. A national government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the national government plans to sell the surplus vehicles. To achieve this objective, the national government enters into a binding arrangement with a state government to provide the surplus vehicles in two years (i.e., the performance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5 million in two years when the state government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The state government elects to pay CU4 million when the binding arrangement is signed.

IE172. The national government concludes that the binding arrangement contains a significant financing component because of the length of time between when the state government pays for the vehicle and when the national government transfers the vehicles to the state government, as well as the prevailing interest rates in the market.

IE173. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the national government determines that, in accordance with paragraph 63 of [draft] IPSAS [X] (ED 70), the rate that should be used in adjusting the promised consideration is six percent, which is the national government's incremental borrowing rate.

IE174. The following journal entries illustrate how the national government would account for the significant financing component:

(a) Recognize a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million
Binding arrangement liability	CU4 million

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the national government adjusts the promised amount of consideration (in accordance with paragraph 64 of [draft] IPSAS [X] (ED 70) and builds up the binding arrangement liability by recognizing interest on CU4 million at six percent for two years:

Interest expense	CU494,000[8]
Binding arrangement liability	CU494,000

(c) Recognize revenue for the transfer of the vehicles:

Binding arrangement liability	CU4,494,000
Revenue	CU4,494,000

Example 33—Advance Payment

IE175. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. There is a Government entity that provides the specialist telecommunications services and the Telecom enters into a binding arrangement with the Government entity to provide maintenance and repair services for

[8] CU494 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

IE176. To determine whether there is a significant financing component in the binding arrangement, the Government entity considers the nature of the service being offered and the purpose of the payment terms. The Government entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government entity with costs for which it cannot earn revenue.

IE177. In assessing the requirements in paragraph 61(c) of [draft] IPSAS [X] (ED 70), the Government entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government entity. The Government entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government entity concludes that there is not a significant financing component.

Non-Cash Consideration

IE178. Example 34 illustrates the requirements in paragraphs 65–68 of [draft] IPSAS [X] (ED 70) on non-cash consideration, as well as the requirements in paragraph 21 of [draft] IPSAS [X] (ED 70) on identifying performance obligations.

Example 34—Entitlement to Non-Cash Consideration

IE179. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70). This is because the Broadcaster is providing a series of distinct production services that are substantially the same and have the same pattern of transfer (the production services transfer to the Media Company over time and use the same method to measure progress—that is, a time-based measure of progress).

IE180. In exchange for the production services, the Media Company promises to provide the Broadcaster with the right to air one of the Media Company's popular sports programs once per week of production services.

IE181. The Broadcaster measures its progress towards complete satisfaction of the performance obligation as each week of production service is complete. To determine the transaction price (and the amount of revenue to be recognized), the Broadcaster first considers the fair value of the right to air the popular sports program. However, as the right to air the program is not typically sold by the Media Company or traded in the market, the Broadcaster concludes that it cannot reasonably estimate the fair value of the non-cash consideration. As a result, the Broadcaster measures the transaction price indirectly by reference to the stand-alone price of the production services promised to the Media Company.

Step 4: Allocating the Transaction price to Performance Obligations

IE182. Examples 35–37 illustrate the requirements in paragraphs 72–85 of [draft] IPSAS [X] (ED 70) on allocating the transaction price to performance obligations. In addition, the following requirements are illustrated in Example 37:

(a) Paragraph 52 of [draft] IPSAS [X] (ED 70) on variable consideration; and

(b) Paragraph AG113 of [draft] IPSAS [X] (ED 70) on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property.

Example 35—Allocation Methodology

IE183. A Department of Defense (the Department) enters into a binding arrangement with another country to provide a fighter jet, specialized spare parts, and a specialized engine in exchange for CU100 million. The Department will satisfy the performance obligations for the jet, spare parts, and engine at different points in time. The Department can provide fighter jets separately and therefore the stand-alone price is directly observable. The stand-alone prices of the specialized spare parts and specialized engine are not directly observable.

IE184. Because the stand-alone prices for the specialized spare parts and specialized engine are not directly observable, the Department must estimate them. To estimate the stand-alone prices, the Department uses the adjusted market assessment approach for the specialized spare parts and the expected cost approach for the specialized engines. In making those estimates, the Department maximizes the use of observable inputs (in accordance with paragraph 77 of [draft] IPSAS [X] (ED 70)). The Department estimates the stand-alone prices as follows:

Product	**Stand-alone price**	**Method**
	CU (millions)	
Fighter jet	90	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 70))
Spare parts	10	Adjusted market assessment approach (see paragraph 78(a) of [draft] IPSAS [X] (ED 70))
Specialized Engine	20	Expected cost approach (see paragraph 78(b) of [draft] IPSAS [X] (ED 70))
Total	120	

IE185. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone prices (CU120 million) exceeds the promised consideration (CU100 million). The Department considers whether it has observable evidence about the performance obligation to which the entire discount belongs (in accordance with paragraph 81 of [draft] IPSAS [X] (ED 70)) and concludes that it does not. Consequently, in accordance with paragraphs 75 and 80 of [draft] IPSAS [X] (ED 70), the discount is allocated proportionately across the fighter jet, spare parts and the specialized engine. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated Transaction Price	
	CU (millions)	
Fighter jet	75	(CU90 ÷ CU120 × CU100)
Spare parts	8	(CU10 ÷ CU120 × CU100)
Engine	17	(CU20 ÷ CU120 × CU100)
Total	100	

Example 36—Allocating a Discount

IE186. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone prices:

Product	Stand-alone price
	CU
Supply A	40
Supply B	55
Supply C	45
Total	140

IE187. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A—Allocating a Discount to One or More Performance Obligations

IE188. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the performance obligations for each of the supplies at different points in time.

IE189. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone price method (in accordance with paragraph 80 of [draft] IPSAS [X] (ED 70). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph 81 of [draft] IPSAS [X] (ED 70).

IE190. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single performance obligation. That is, the Agency could allocate CU60 of the transaction price to the single performance obligation and recognize revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE191. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to

transfer Supply B (stand-alone price of CU55) and Supply C (stand-alone price of CU45) as follows:

Product	Allocated transaction price	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone price × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone price × CU60)
Total	60	

Case B—Residual Approach is Appropriate

IE192. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone price for Supply D is highly variable (see paragraph 78(c) of [draft] IPSAS [X] (ED 70)) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone price of Supply D using the residual approach.

IE193. Before estimating the stand-alone price of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other performance obligations in the binding arrangement in accordance with paragraphs 81 and 82 of [draft] IPSAS [X] (ED 70).

IE194. As in Case A, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph 81 of [draft] IPSAS [X] (ED 70). Using the residual approach, the Agency estimates the stand-alone price of Supply D to be CU30 as follows:

Product	Stand-alone price	Method
	CU	
Supply A	40	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 70))
Supplies B and C	60	Directly observable with discount (see paragraph 81 of [draft] IPSAS [X] (ED 70))
Supply D	30	Residual approach (see paragraph 78(c) of [draft] IPSAS [X] (ED 70))
Total	130	

IE195. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70) and the requirements in paragraph 77 of [draft] IPSAS [X] (ED 70).

Case C—Residual Approach is Inappropriate

IE196. The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone price of CU5 for Supply D (CU105 transaction price less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its performance obligation to transfer Supply D, because CU5 does not approximate the stand-alone price of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone price of Supply D using another suitable method. The Agency allocates the transaction price of CU105 to Supplies A, B, C and D using the relative stand-alone prices of those products in accordance with paragraphs 72–79 of [draft] IPSAS [X] (ED 70).

Example 37—Allocation of Variable Consideration

IE197. A government-owned university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two performance obligations each satisfied at a point in time. The stand-alone prices of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A—Variable Consideration Allocated Entirely to One Performance Obligation

IE198. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 52 of [draft] IPSAS [X] (ED 70)).

IE199. To allocate the transaction price, the University considers the criteria in paragraph 84 of [draft] IPSAS [X] (ED 70) and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 84 of [draft] IPSAS [X] (ED 70) are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the performance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amounts of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70). This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone price of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone price of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 85 of [draft] IPSAS [X] (ED 70). This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to Formulation Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70).

IE200. The University transfers Formulation Y at inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognize revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG111 of [draft] IPSAS [X] (ED 70), the University recognizes revenue for the sales-based royalty when those subsequent sales occur.

IE201. When Formulation X is transferred, the University recognizes as revenue the CU800,000 allocated to Formulation X.

Case B—Variable Consideration Allocated on the Basis of Stand-Alone Prices

IE202. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 52 of [draft] IPSAS [X] (ED 70).

IE203. To allocate the transaction price, the University applies the criteria in paragraph 84 of [draft] IPSAS [X] (ED 70) to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction price. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone prices of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 75–79 of [draft] IPSAS [X] (ED 70).

IE204. The University allocates the transaction price of CU300,000 to Formulations X and Y on the basis of relative stand-alone prices of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone price basis. However, in accordance with paragraph AG111 of [draft] IPSAS [X] (ED 70), when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

IE205. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognizes as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognizes as revenue the CU133 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE206. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG111 of [draft] IPSAS [X] (ED 70), the University recognizes as revenue the CU111,000 (CU1,000,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied performance obligation). The University recognizes a binding arrangement liability for the CU89,000 (CU800,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation X. This is because although the subsequent sale by the Company has occurred, the performance obligation to which

the royalty has been allocated has not been satisfied until Formulation X is transferred three months later.

Three-party Arrangements and the Determination of Stand-Alone Price

IE207. Example 38 illustrates the application of paragraph AG22 of [draft] IPSAS [X] (ED 70) on the provision of goods or services to third-party beneficiaries and paragraph AG91 of [draft] IPSAS [X] (ED 70) on the determination of the stand-alone price of these goods or services.

Example 38—Provision of Vaccines to Third-Party Beneficiaries

Case A – Arrangement Falls Within the Scope of [draft] IPSAS [X] (ED 70)

IE208. A health clinic receives CU100,000 from the government to provide free vaccinations. The government requires the clinic to provide 150 doses of vaccine A, which is a vaccine that the clinic had previously provided for a stand-alone price of CU500 per dose. In addition, the clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE209. The clinic concludes that this arrangement would be in the scope of [draft] IPSAS [X] (ED 70), as the government, which is acting as the purchaser, is paying the clinic to provide vaccination services to the local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG22 of [draft] IPSAS [X] (ED 70).

IE210. In determining the stand-alone price for each dose of the vaccines, the clinic estimates that each dose of vaccine A has a stand-alone price of CU500, based on the historical stand-alone price for that vaccine. For vaccine B, the clinic applies paragraph AG91 of [draft] IPSAS [X] (ED 70) and estimates that the stand-alone price of each dose is CU100, based on the expected cost approach for the health clinic to acquire each vaccination, as well as the labor costs for the administration of vaccines.

IE211. Using the stand-alone price of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction price to the two vaccines:

Total Stand-alone Price of All Performance Obligations:

Vaccine A: CU500 stand-alone price × 150 doses = CU75,000

Vaccine B: CU100 stand-alone price (based on replacement cost + labor) × 350 doses = CU35,000

Total Stand-alone Price: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Price of CU100,000 to the Two Vaccines:

Vaccine A: CU100,000 × CU75,000 ÷ CU110,000 = CU68,182 or CU454.55 per dose

Vaccine B: CU100,000 × CU35,000 ÷ CU110,000 = CU31,818 or CU90.91 per dose

IE212. Based on the above, the clinic would recognize revenue using the above allocated transaction prices and the number of vaccines used.

Case B – Arrangement Falls Within the Scope of [draft] IPSAS [X] (ED 71)

IE213. Similar to Case A, the health clinic receives CU100,000 from the government. However, in this case, the funding was provided to the health for the purposes of running their vaccination program. The terms of the binding arrangement specify that the clinic has discretion to spend the

funds on expenditures that are directly related to the vaccination program and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as administration of the vaccines or the development of educational materials regarding vaccines; an allocation of rent for premises used to conduct these vaccination-related activities; and the acquisition cost of vaccinations themselves.

IE214. Because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals, the health clinic concludes that the arrangement is within the scope of [draft] IPSAS [X] (ED 71) and recognizes revenue as eligible expenditures are incurred or enforceable activities are completed.

Binding Arrangement Costs

IE215. Example 39 illustrates the requirements in paragraphs 94–97 of [draft] IPSAS [X] (ED 70) on costs to fulfil a binding arrangement and paragraphs 98–103 of [draft] IPSAS [X] (ED 70) on amortization and impairment of binding arrangement costs.

Example 39—Costs that Give Rise to an Asset

IE216. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a local government's information technology data center for five years. The binding arrangement is renewable for subsequent one-year periods. The average purchaser term is seven years. Before providing the services, the Agency designs and builds a technology platform for the Agency's internal use that interfaces with the local government's systems. That platform is not transferred to the local government but will be used to deliver services to the local government.

Costs to Fulfill a Binding Arrangement

IE217. The initial costs incurred to set up the technology platform are as follows:

	CU
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

IE218. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with IPSAS 17, *Property, Plant and Equipment*.

(b) Software costs—accounted for in accordance with IPSAS 31, *Intangible Assets*.

(c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 94 of [draft] IPSAS [X] (ED 70) to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a

systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data center.

IE219. In addition to the initial costs to set up the technology platform, the Agency also assigns two employees who are primarily responsible for providing the service to the local government. Although the costs for these two employees are incurred as part of providing the service to the local government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 94(b) of [draft] IPSAS [X] (ED 70)). Therefore, the costs do not meet the criteria in paragraph 94 of [draft] IPSAS [X] (ED 70) and cannot be recognized as an asset using [draft] IPSAS [X] (ED 70). In accordance with paragraph 97, the Agency recognizes the payroll expense for these two employees when incurred.

Presentation

Illustrating the Consequences of Applying Paragraphs 55-57, 59-64 and AG61-AG68 of [draft] IPSAS [X]

IE220. Examples 40–42 illustrate the requirements in paragraphs 104–108 of [draft] IPSAS [X] (ED 70) on the presentation of binding arrangement balances.

Example 40— Binding Arrangement Liability and Receivable

Case A—Cancellable Binding Arrangement

IE221. On January 1, 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on March 31, 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance on January 31, 20X9. The government entity pays the consideration on March 1, 20X9. The Agency transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency satisfies the performance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

Case B—Non-Cancellable Binding Arrangement

IE222. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a receivable because it has an unconditional right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

(a) The Agency receives the cash on March 1, 20X9:

Cash	CU1,000	
Receivable		CU1,000

(b) The Agency satisfies the performance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE223. If the Agency issued the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 41—Binding Arrangement Asset Recognized for the Entity's Performance

IE224. On January 1, 20X8, a government shared services IT agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a small government department (the Department) in exchange for CU1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE225. The Agency identifies the promises to transfer the software and complete the configuration as separate performance obligations and allocates CU400,000 to the performance obligation to transfer the software and CU600,000 to the performance obligation to complete the configuration on the basis of their relative stand-alone prices. The Agency recognizes revenue for each respective performance obligation when control of the product transfers to the Department.

IE226. The Agency satisfies the performance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE227. The Agency satisfies the performance obligation to configure the software and to recognize the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

Example 42—Receivable Recognized for the Entity's Performance

IE228. A government hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on January 1, 20X9 to perform medical examinations for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE229. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE230. In determining the transaction price, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates that the transaction price is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognizes the following:

Receivable	CU15,000[9]	
Revenue		CU12,500[10]
Refund liability (binding arrangement liability)		CU2,500

IE231. The refund liability (see paragraph 54 of [draft] IPSAS [X] (ED 70)) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction price).

Disclosure

IE232. Example 43 illustrates the requirements in paragraphs 114–115 and AG137–AG139 of [draft] IPSAS [X] (ED 70) on the disaggregation of revenue disclosure. Examples 44–45 illustrate the requirements in paragraphs 121–123 of [draft] IPSAS [X] (ED 70) for the disclosure of transaction price allocated to the remaining performance obligations. In addition, the following requirements are illustrated in Example 44:

9 CU 150 per examinations × 100 examinations

10 CU 125 transaction price per examinations × 100 examinations

(a) Paragraph 56 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration; and

(b) Paragraph AG57 of [draft] IPSAS [X] (ED 70) on methods for measuring progress towards complete satisfaction of a performance obligation.

IE233. Example 46 illustrates the disclosure requirements in paragraph 120 of [draft] IPSAS [X] (ED 70) for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with performance obligations regardless of the purchaser's ability to pay for the goods or services.

Example 43—Disaggregation of Revenue—Quantitative Disclosure

IE234. A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*. When the State Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

IE235. The State Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 114 of [draft] IPSAS [X] (ED 70), which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 115 of [draft] IPSAS [X] (ED 70).

Segments	**Emergency Services**	**Public Transit**	**Energy**	**Total**
	CU (million)	**CU (million)**	**CU (million)**	**CU (million)**
Primary geographical markets				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
Major goods/service lines				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
Timing of revenue recognition				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

Example 44—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations

IE236. On June 30, 20X7, a centralized training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 121–123 of [draft] IPSAS [X] (ED 70) in determining the information in each binding arrangement to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

Binding Arrangement A

IE237. Training services are to be provided over the next two years typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE238. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the purchaser in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG57 of [draft] IPSAS [X] (ED 70). Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 122(b) of [draft] IPSAS [X] (ED 70).

Binding Arrangement B

IE239. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE240. The Agency discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	**20X9**	**Total**
	CU	**CU**	**CU**
Revenue expected to be recognised on this Binding Arrangement as of December 31, 20X7	4,800[11]	2,400[12]	7,200

Binding Arrangement C

IE241. Training services are to be provided as and when needed over the next two years. The Department pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the Department's employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 56 of [draft] IPSAS [X] (ED 70), the Agency includes its estimate of CU750 of variable consideration in the transaction price because it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Agency measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE242. The Agency discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

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[11] CU4,800 = CU400 × 12 months.

[12] CU2,400 = CU400 × 6 months

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of December 31, 20X7	1,575[13]	788[14]	2,363

IE243. In addition, in accordance with paragraph 123 of [draft] IPSAS [X] (ED 70), the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the requirements for constraining estimates of variable consideration.

Example 45—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations—Qualitative Disclosure

IE244. On January 1, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a building for fixed consideration of CU10 million. The refurbishment of the building is considered a single performance obligation that Public Works satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of revenue. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE245. At 31 December 20X2, Public Works discloses the amount of the transaction price that has not yet been recognized as revenue in its disclosure of the transaction price allocated to the remaining performance obligations. Public Works also discloses an explanation of when it expects to recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining performance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of revenue recognition, Public Works discloses this information qualitatively as follows:

'As of December 31, 20X2, the aggregate amount of the transaction price allocated to the remaining performance obligation is CU6.8 million and the entity will recognize this revenue as the building is completed, which is expected to occur over the next 12–18 months.'

Example 46—Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

IE246. A government-owned utility operates a number of power plants and provides electricity to residential households. The energy sector in the jurisdiction is highly regulated, and under its Power and Energy Act, all utility companies which provide electricity to residential households are required to provide electricity regardless of the households' ability to pay. Typically, a household would apply to the utility to connect electricity to their location. As part of the connection process,

[13] Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

[14] CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

the household would enter into a power purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

IE247. The power purchase agreement is considered a binding arrangement with performance obligations, as the utility has agreed to provide a distinct good (electricity) to a purchaser (the household) in exchange for consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of electricity even if a household is in default—i.e., the utility is compelled to satisfy the performance obligation to provide electricity regardless of a household's ability to pay.

IE248. During the year, the utility provided electricity that would have resulted in total revenue of CU100 million if revenue had been recognized at the utility's standard rates for 100% of the electricity provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.

IE249. The utility applies paragraph AG31 of [draft] IPSAS [X] (ED 70), and based on historical data, estimates that only CU90 million of the amount is collectible. For the remaining CU10 million, the utility accepts that it has implicitly provided a price concession of CU10 million due to the regulations compelling the utility to continue to provide electricity. As a result, the utility recognizes revenue based on a transaction price of CU90 million. (See Example 7 for more guidance on implicit price concessions.)

IE250. To comply with the disclosure requirements in paragraph 120 of [draft] IPSAS [X] (ED 70), the utility discloses the following information in the notes to its annual financial statements:

The utility is subject to the provisions of the Power and Energy Act, which requires all utilities to provide electricity to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its power grid and to continue to provide electricity even in the event of non-payment.

During the year, the utility provided and billed CU100 million of electricity to the households, but only recognized revenue of CU90 million, as this was the amount expected to be collected based on historical data. Therefore, CU10 million of the amount billed was not recognized as revenue.

Principal versus Agent Considerations

IE251. Examples 47–51 illustrate the requirements in paragraphs AG77–AG85 of [draft] IPSAS [X] (ED 70) on principal versus agent considerations.

Example 47—Arranging for the Provision of Goods or Services (Entity is an Agent)

IE252. A government agency (the Agency) operates a website that enables patients (the purchasers) to procure non-essential medical services from a range of doctors and healthcare providers who deliver medical services directly to the patients. Under the terms of the Agency's binding arrangements with healthcare providers, when a service is purchased via the website, the Agency is entitled to a commission that is equal to 10 percent of the price paid to the healthcare provider. The Agency's website facilitates payment between the healthcare providers and the patients at prices that are set by the healthcare providers. The Agency requires payment from the patient before the medical services are carried out. The Agency has no further obligations to the patients after arranging for the services to be provided to the patients.

IE253. To determine whether the Agency's performance obligation is to provide the specified service itself (i.e., the Agency is a principal) or to arrange for those services to be provided by the healthcare providers (i.e., the Agency is an agent), the Agency identifies the specified good or

service to be provided to the patients and assesses whether it controls that good or service before the good or service is transferred to the patient.

IE254. The website operated by the Agency is a marketplace in which healthcare providers offer their services and patients purchase the services that are offered by the healthcare providers. Accordingly, the Agency observes that the specified services to be provided to patients that use the website are the medical services provided by the healthcare providers, and no other goods or services are promised to patients by the Agency.

IE255. The Agency concludes that it does not control the specified services before they are provided to the patients that order services using the website. The Agency does not at any time have the ability to direct the healthcare providers to provide the services to the patients on the Agency's behalf. For example, it cannot direct the services to parties other than the patient or prevent the healthcare provider from providing services to the patient. When applicable, the Agency does not control the healthcare suppliers' inventory of goods used to fulfill the orders placed by patients using the website.

IE256. As part of reaching that conclusion, the Agency considers the following indicators in paragraph AG83 of [draft] IPSAS [X] (ED 70). The Agency concludes that these indicators provide further evidence that it does not control the specified services before they are provided to the patients:

(a) The healthcare provider is primarily responsible for fulfilling the promise to provide the services to the patient. The agency is neither obligated to provide the services if the healthcare provider fails to provide the services to the patient, nor responsible for the acceptability of the services performed.

(b) If the services include the delivery of a good, the Agency does not take inventory risk at any time before or after the goods are transferred to the patients. The Agency does not commit itself to obtain the goods from the healthcare provider before the goods are purchased by the patient, and the Agency also does not accept responsibility for any damaged or returned goods.

(c) The Agency does not have discretion in establishing prices for the healthcare provider's services. The price is set by the healthcare provider.

IE257. Consequently, the Agency concludes that it is an agent and its performance obligation is to arrange for the provision of services by the healthcare providers. When the Agency satisfies its promise to arrange for the services to be provided by the healthcare providers to the patients (which, in this example, is when services are purchased by the patients), the Agency recognizes revenue in the amount of the commission to which it is entitled.

IE258. It should be noted that because the medical services in the above scenario are non-essential, they are fully paid for by the patient and there is no government involvement beyond matching the patients to a suitable healthcare provider. In contrast, in many jurisdictions, the government will fund essential medical services and direct healthcare providers to provide services to patients. In these scenarios, the government is acting as the purchaser of the essential medical services from the healthcare providers, while the individual patients are considered third-party beneficiaries in the arrangement.

Example 48—Promise to Provide Goods or Services (Entity is a Principal)

IE259. A shared IT services agency (the Agency) enters into a binding arrangement with a government printing office (the Printing Office) for specialized printing equipment with unique specifications. The Agency and the Printing Office develop the specifications for the equipment, which the Agency communicates to a supplier that the Agency enters into a binding arrangement with to manufacture the printing equipment. The Agency also arranges to have the supplier deliver the equipment directly to the Printing Office. Upon delivery of the equipment to the Printing Office, the terms of the binding arrangement require the Agency to pay the supplier the price agreed to by the Agency and the supplier for manufacturing the equipment.

IE260. The Agency and the Printing Office negotiate the price and the Agency invoices the Printing Office for the agreed-upon price with 30-day payment terms. The Agency recovers its costs based on the difference between the sales price negotiated with the Printing Office and the price charged by the supplier.

IE261. The binding arrangement between the Agency and the Printing Office requires the Printing Office to seek remedies for defects in the printing equipment from the supplier under the supplier's warranty. However, the Agency is responsible for any corrections to the equipment required resulting from errors in specifications.

IE262. To determine whether the Agency's performance obligation is to provide the specified goods or services itself (i.e., the Agency is a principal) or to arrange for those goods or services to be provided by another party (i.e., the Agency is an agent), the Agency identifies the specified good or service to be provided to the Printing Office and assesses whether it controls that good or service before the good or service is transferred to the Printing Office.

IE263. The Agency concludes that it has promised to provide the Printing Office with specialized printing equipment designed by the Agency. Although the Agency has subcontracted the manufacturing of the printing equipment to the supplier, the Agency concludes that the design and manufacturing of the printing equipment are not distinct, because they are not separately identifiable (i.e., there is a single performance obligation). The Agency is responsible for the overall management of the binding arrangement (for example, by ensuring that the manufacturing service conforms to the specifications) and, thus, provides a significant service of integrating those items into the combined output—the specialized printing equipment—for which the Printing Office has entered into a binding arrangement. In addition, those activities are highly interrelated. If modifications to the specifications are identified as the equipment is manufactured, the Agency is responsible for developing and communicating revisions to the supplier and for ensuring that any associated rework required conforms to the revised specifications. Accordingly, the Agency identifies the specified good to be provided to the Printing Office as the specialized printing equipment.

IE264. The Agency concludes that it controls the specialized printing equipment before that equipment is transferred to the Printing Office (see paragraph AG80(c)). The Agency provides the significant integration service necessary to produce the specialized printing equipment and, therefore, controls the specialized printing equipment before it is transferred to the Printing Office. The Agency directs the use of the supplier's manufacturing service as an input in creating the combined output that is the specialized equipment. In reaching the conclusion that it controls the specialized equipment before that equipment is transferred to the Printing Office, the Agency also observes that, even though the supplier delivers the specialized printing equipment to the Printing Office, the supplier has no ability to direct its use (i.e., the terms of the binding arrangement between the Agency and the supplier preclude the supplier from using the specialized printing

equipment for another purpose or directing that equipment to another purchaser). The Agency also obtains the remaining economic benefits or service potential from the specialized printing equipment by being entitled to the consideration in the binding arrangement from the Printing Office.

IE265. Thus, the Agency concludes that it is a principal in the transaction. The Agency does not consider the indicators in paragraph AG83 of [draft] IPSAS [X] (ED 70) because the evaluation above is conclusive without consideration of the indicators. The Agency recognizes revenue in the gross amount of consideration to which it is entitled from the Printing Office in exchange for the specialized printing equipment.

Example 49—Promise to Provide Goods or Services (Entity is a Principal)

IE266. A shared maintenance services agency (the Agency) enters into a binding arrangement with the Department of Social Welfare (the Department) to provide office maintenance services on the Department's properties. The Agency and the Department define and agree on the scope of the maintenance services and negotiate the price. The Agency is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Agency invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE267. The Agency regularly engages third-party service providers to provide maintenance services to its purchasers. When the Agency obtains a binding arrangement from a purchaser, the Agency enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the Department. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the Agency's binding arrangements with purchasers. However, the Agency is obligated to pay the service provider even if the Department fails to pay.

IE268. To determine whether the Agency is a principal or an agent, the Agency identifies the specified good or service to be provided to the Department and assesses whether it controls that good or service before the good or service is transferred to the Department.

IE269. The Agency observes that the specified services to be provided to the Department are the office maintenance services for which the Department entered into a binding arrangement, and that no other goods or services are promised to the Department. While the Agency obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the Department, that right is not transferred to the Department. That is, the Agency retains the ability to direct the use of, and obtain substantially all the remaining economic benefits or service potential from, that right. For example, the Agency can decide whether to direct the service provider to provide the office maintenance services for the Department, or for another purchaser, or at its own facilities. The Department does not have a right to direct the service provider to perform services that the Agency has not agreed to provide. Therefore, the right to office maintenance services obtained by the Agency from the service provider is not the specified good or service in its binding arrangement with the Department.

IE270. The Agency concludes that it controls the specified services before they are provided to the Department. The Agency obtains control of a right to office maintenance services after entering into the binding arrangement with the Department but before those services are provided to the Department. The terms of the Agency's binding arrangement with the service provider give the Agency the ability to direct the service provider to provide the specified services on the Agency's

behalf (see paragraph AG80(b)). In addition, the Agency concludes that the following indicators in paragraph AG83 of [draft] IPSAS [X] (ED 70) provide further evidence that the Agency controls the office maintenance services before they are provided to the Department:

(a) The Agency is primarily responsible for fulfilling the promise to provide office maintenance services. Although the Agency has hired a service provider to perform the services promised to the Department, it is the Agency itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Agency is responsible for fulfillment of the promise in the binding arrangement, regardless of whether the Agency performs the services itself or engages a third-party service provider to perform the services).

(b) The Agency has discretion in setting the price for the services to the Department.

IE271. The Agency observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the Department. Thus, the Agency has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Agency concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE270.

IE272. Thus, the Agency is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

Example 50—Promise to Provide Goods or Services (Entity is a Principal)

IE273. A local government negotiates with hospitals to purchase vaccines at reduced rates for individual citizens in the jurisdiction compared with the price of vaccines provided directly by the hospitals to the individual citizens. The local government agrees to buy a specific number of vaccines and must pay for those vaccines regardless of whether it is able to use them. The reduced rate paid by the local government for each vaccine purchased is negotiated and agreed in advance.

IE274. The local government determines the prices at which the vaccines will be provided to the individual citizens. The local government provides the vaccines and collects the consideration from citizens when the vaccines are purchased.

IE275. The local government also assists the individual citizens in resolving complaints with the service provided by the hospitals. However, each hospital is responsible for fulfilling obligations associated with the vaccines, including remedies to a citizen for dissatisfaction with the service.

IE276. To determine whether the local government's performance obligation is to provide the specified goods or services itself (i.e., the local government is a principal) or to arrange for those goods or services to be provided by another party (i.e., the local government is an agent), the local government identifies the specified good or service to be provided to the individual citizens and assesses whether it controls that good or service before the good or service is transferred to the citizens.

IE277. The local government concludes that, with each vaccine that it commits itself to purchase from the hospitals, it obtains control of a right to the vaccine that the local government then transfers to an individual citizen, who in turn is one of the local government's purchasers (see paragraph AG80(a)). Consequently, the local government determines that the specified good or service to be provided to the individual citizen, is that right to a unit of the vaccine that the local

government controls. The local government observes that no other goods or services are promised in this arrangement to the individual citizens.

IE278. The local government controls the right to each unit of vaccine before it transfers that specified right to one of its citizens because the local government has the ability to direct the use of that right by deciding whether to use the vaccine to fulfill a binding arrangement with a citizen and, if so, which binding arrangement it will fulfill. The local government also has the ability to obtain the remaining benefits or service potential from that right by either reselling the vaccine and obtaining all of the proceeds from the sale or, alternatively, providing the vaccine to another individual.

IE279. The indicators in paragraphs AG83(b)–(c) of [draft] IPSAS [X] (ED 70) also provide relevant evidence that the local government controls each specified right (to the vaccine) before it is transferred to the citizen. The local government has inventory risk with respect to the vaccine because the local government committed itself to obtain the vaccine from the hospital before obtaining a binding arrangement with a citizen to purchase the vaccine. This is because the local government is obligated to pay the hospital for that right regardless of whether it is able to obtain a purchaser to redirect the vaccine to or whether it can obtain a favorable price for the vaccine. The local government also establishes the price that the individual citizen will pay for the specified vaccine.

IE280. Thus, the local government concludes that it is a principal in the transactions with the individual citizens. The local government recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the vaccines transferred to the citizens.

Example 51—Arranging for the Provision of Goods or Services (Entity is an Agent)

IE281. The Department of Health (the Department) provides vouchers that entitle qualifying individuals (the patients) to subsidized vaccination services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal prices of the vaccination services (for example, a patient pays CU10 for a voucher that entitles the patient to a vaccine at a clinic that would otherwise cost CU20). The Department does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. The Department provides the vouchers through its website and the vouchers are non-refundable.

IE282. The Department and the clinics jointly determine the prices at which the vouchers will be provided to patients. Under the terms of its binding arrangements with the clinics, the Department is entitled to 30 percent of the voucher price when it provides the voucher.

IE283. The Department also assists the patients in resolving complaints about the vaccination services and has a patient satisfaction program. However, the clinics are responsible for fulfilling obligations associated with the voucher, including remedies to a patient for dissatisfaction with the vaccination.

IE284. To determine whether the Department is a principal or an agent, the Department identifies the specified good or service to be provided to the patient and assesses whether it controls the specified good or service before that good or service is transferred to the patient.

IE285. A patient obtains a voucher for the clinic that it selects. The Department does not engage the clinics to provide vaccinations to patients on the Department's behalf as described in the indicator in paragraph AG83(a) of [draft] IPSAS [X] (ED 70). Therefore, the Department observes that the specified service to be provided to the patient is the right to a vaccination (in the form of a

voucher) at a specified clinic or clinics, which the patient purchases and then can use itself or transfer to another person. The Department also observes that no other goods or services (other than the vouchers) are promised to the patients.

IE286. The Department concludes that it does not control the voucher (right to a vaccination) at any time. In reaching this conclusion, the Department principally considers the following:

(a) The vouchers are created only at the time that they are transferred to the patients and, thus, do not exist before that transfer. Therefore, the Department does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining benefits or service potential from the vouchers, before they are transferred to patients.

(b) The Department neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. The Department also has no responsibility to accept any returned vouchers. Therefore, the Department does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG83(b) of [draft] IPSAS [X] (ED 70).

IE287. Thus, the Department concludes that it is an agent with respect to the vouchers. The Department recognizes revenue in the net amount of consideration to which the Department will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' vaccination services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

Purchaser Options for Additional Goods or Services

Illustrating the Consequences of Applying Paragraphs 26-28, and AG86-AG90 of [draft] IPSAS [X]

IE288. Examples 52–54 illustrate the requirements in paragraphs AG86–AG90 of [draft] IPSAS [X] (ED 70) on purchaser options for additional goods or services. Example 53 illustrates the requirements in paragraphs 26–28 of [draft] IPSAS [X] (ED 70) on identifying performance obligations. Example 54 illustrates a loyalty program. That example may not apply to all loyalty arrangements because the terms and conditions may differ. In particular, when there are more than two parties to the arrangement, an entity should consider all facts and circumstances to determine the purchaser in the transaction that gives rise to the award credits.

Example 52—Option that Provides the Purchaser with a Material Right (Discount Voucher)

IE289. A university-owned bookstore (the University) enters into a binding arrangement with a student for the sale of Textbook A for CU100. As part of the binding arrangement, the University gives the students a discount voucher for 40 percent off any future purchases at the bookstore up to CU100 in the next 30 days. The University intends to offer a 10 percent discount on all sales at the bookstore during the next 30 days as part of a start-of-year seasonal promotion. The 10 percent discount cannot be used in addition to the 40 percent discount voucher.

IE290. Because all purchasers will receive a 10 percent discount on purchases during the next 30 days, the only discount that provides the purchaser with a material right is the discount that is incremental to the 10 percent (i.e., the additional 30 percent discount). The University accounts for the promise to provide the incremental discount as a performance obligation in the binding arrangement for the sale of Textbook A.

IE291. To estimate the stand-alone price of the discount voucher in accordance with paragraph AG89 of [draft] IPSAS [X] (ED 70), the University estimates an 80 percent likelihood that a student will redeem the voucher and that a student will, on average, purchase CU50 of additional products. Consequently, the University's estimated stand-alone price of the discount voucher is CU12

(CU50 average purchase price of additional products × 30 percent incremental discount × 80 percent likelihood of exercising the option). The stand-alone prices of Textbook A and the discount voucher and the resulting allocation of the CU100 transaction price are as follows:

Performance obligation	Stand-alone price	
	CU	
Textbook A	100	
Discount voucher	12	
Total	112	
	Allocated transaction price	
Textbook A	89	(CU100 ÷ CU112 × CU100)
Discount voucher	11	(CU12 ÷ CU112 × CU100)
Total	100	

IE292. The University allocates CU89 to Textbook A and recognizes revenue for Textbook A when control transfers. The University allocates CU11 to the discount voucher and recognizes revenue for the voucher when the student redeems it for goods or services or when it expires.

Example 53—Option that Provides the Purchaser with a Material Right (Renewal Option)

IE293. A government shared services agency (the Agency) enters into 100 separate binding arrangements with other government departments to provide one year of maintenance services for CU10,000 per binding arrangement. The terms of the binding arrangements specify that at the end of the year, each department has the option to renew the maintenance binding arrangement for a second year by paying an additional CU10,000. Departments which renew for a second year are also granted the option to renew for a third year for CU10,000. To entice the other departments to plan ahead and better manage resources in the long-term, the Agency charges significantly higher prices for maintenance services to departments that do not sign up for the maintenance services initially (i.e., when the departments initially enter into the arrangement). For example, the Agency charges CU30,000 in Year 2 and CU50,000 in Year 3 for annual maintenance services if a department does not initially purchase the service or allows the service to lapse.

IE294. The Agency concludes that the renewal option provides a material right to a department that it would not receive without entering into the binding arrangement, because the price for maintenance services are significantly higher if a department elects to purchase the services only in Year 2 or 3. Part of each department's payment of CU10,000 in the first year is, in effect, a non-refundable prepayment of the services to be provided in a subsequent year. Consequently, the Agency concludes that the promise to provide the option is a performance obligation.

IE295. The renewal option is for a continuation of maintenance services and those services are provided in accordance with the terms of the existing binding arrangement. Instead of determining the stand-alone prices for the renewal options directly, the Agency allocates the transaction price by

determining the consideration that it expects to receive in exchange for all the services that it expects to provide, in accordance with paragraph AG90 of [draft] IPSAS [X] (ED 70).

IE296. The Agency expects 90 departments to renew at the end of Year 1 (90 percent of binding arrangements provided) and 81 departments to renew at the end of Year 2 (90 percent of the 90 departments that renewed at the end of Year 1 will also renew at the end of Year 2, that is 81 percent of binding arrangements provided).

IE297. At the inception of the binding arrangement, the Agency determines the expected consideration for each binding arrangement is CU27,100 [CU10,000 + (90 percent × CU10,000) + (81 percent × CU10,000)]. The Agency also determines that recognizing revenue on the basis of costs incurred relative to the total expected costs depicts the transfer of services to the purchaser. Estimated costs for a three-year binding arrangement are as follows:

	CU
Year 1	6,000
Year 2	7,500
Year 3	10,000

IE298. Accordingly, the pattern of revenue recognition expected at the inception of the binding arrangement for each binding arrangement is as follows:

	Expected costs adjusted for likelihood of renewal of the binding arrangement		**Allocation of consideration expected**	
	CU		**CU**	
Year 1	6,000	(CU6,000 × 100%)	7,800	[(CU6,000 ÷ CU20,850) × CU27,100]
Year 2	6,750	(CU7,500 × 90%)	8,770	[(CU6,750 ÷ CU20,850) × CU27,100]
Year 3	8,100	(CU10,000 × 81%)	10,530	[(CU8,100 ÷ CU20,850) × CU27,100]
Total	20,850		27,100	

IE299. Consequently, at the inception of the binding arrangement, the Agency allocates to the option to renew at the end of Year 1 CU220,000 of the consideration received to date [cash of CU1,000,000 – revenue to be recognized in Year 1 of CU780,000 (CU7,800 × 100)].

IE300. Assuming there is no change in the Agency's expectations and the 90 departments renew as expected, at the end of the first year, the Agency has collected cash of CU1,900,000 [(100 × CU10,000) + (90 × CU10,000)], has recognized revenue of CU780,000 (CU7,800 × 100) and has recognized a binding arrangement liability of CU1,120,000.

IE301. Consequently, upon renewal at the end of the first year, the Agency allocates CU243,000 to the option to renew at the end of Year 2 [cumulative cash of CU1,900,000 less cumulative revenue recognized in Year 1 and to be recognized in Year 2 of CU1,657,000 (CU780,000 + CU8,770 × 100)].

IE302. If the actual number of renewals to the binding arrangement was different than what the Agency expected, the Agency would update the transaction price and the revenue recognized accordingly.

Example 54—Loyalty Program

IE303. A government-owned museum (the Museum) has a loyalty program that rewards visitors with one loyalty point for every CU10 of purchases. Each point is redeemable for a CU1 discount on any future purchases of the Museum's products. During a reporting period, the Museum's visitors collectively acquired CU100,000 of products and earned 10,000 points that are redeemable for future purchases. The consideration is fixed, and the stand-alone price of the purchased products is CU100,000. The Museum expects 9,500 points to be redeemed. The Museum estimates a stand-alone price of CU0.95 per point (totaling CU9,500) on the basis of the likelihood of redemption in accordance with paragraph AG89 of [draft] IPSAS [X].

IE304. The points provide a material right to visitors that they would not receive without entering into a binding arrangement. Consequently, the Museum concludes that the promise to provide points to the visitors is a performance obligation. The Museum allocates the transaction price (CU100,000) to the product and the points on a relative stand-alone price basis as follows:

	CU	
Product	91,324	[CU100,000 × (CU100,000 stand-alone price ÷ CU109,500)]
Points	8,676	[CU100,000 × (CU9,500 stand-alone price ÷ CU109,500)]

IE305. At the end of the first reporting period, 4,500 points have been redeemed and the Museum continues to expect 9,500 points to be redeemed in total. The Museum recognizes revenue for the loyalty points of CU4,110 [(4,500 points ÷ 9,500 points) × CU8,676] and recognizes a binding arrangement liability of CU4,566 (CU8,676 – CU4,110) for the unredeemed points at the end of the first reporting period.

IE306. At the end of the second reporting period, 8,500 points have been redeemed cumulatively. The Museum updates its estimate of the points that will be redeemed and now expects that 9,700 points will be redeemed. The Museum recognizes revenue for the loyalty points of CU3,493 {[(8,500 total points redeemed ÷ 9,700 total points expected to be redeemed) × CU8,676 initial allocation] – CU4,110 recognized in the first reporting period}. The binding arrangement liability balance is CU1,073 (CU8,676 initial allocation – CU7,603 of cumulative revenue recognized).

Non-refundable Upfront Fees

Illustrating the Consequences of Applying Paragraphs AG96-AG99of [draft] IPSAS [X]

IE307. Example 55 illustrates the requirements in paragraphs AG96–AG99 of [draft] IPSAS [X] (ED 70) on non-refundable upfront fees.

Example 55—Non-refundable Upfront Fee

IE308. A public swimming pool (the Pool) enters into a binding arrangement with an individual to provide one year of access to the pools. The Pool's binding arrangements have standard terms that are the same for all individuals. The binding arrangement requires the individual to pay an upfront administration fee to set up the individual on the Pool's systems. The fee is a nominal amount and is non-refundable. The individual can renew the binding arrangement each year without paying an additional fee.

IE309. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate performance obligation.

IE310. The Pool concludes that the renewal option does not provide a material right to the individual that it would not receive without entering into that binding arrangement (see paragraph AG87 of [draft] IPSAS [X] (ED 70)). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction price, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG97 of draft] IPSAS [X] (ED 70).

Licensing

Illustrating the Consequences of Applying Paragraphs 21-29, 38-44, 83-85 and AG100-AG113 of [draft] IPSAS [X]

IE311. Examples 56–62 illustrate the requirements in paragraphs 21–29 of [draft] IPSAS [X] (ED 70) for identifying performance obligations and paragraphs AG100–AG113 of [draft] IPSAS [X] (ED 70) on licensing. These examples also illustrate other requirements as follows:

(a) Paragraphs 38–44 of [draft] IPSAS [X] (ED 70) on measuring progress towards complete satisfaction of a performance obligation (Example 59); and

(b) Paragraphs AG111–AG113 of [draft] IPSAS [X] (ED 70) on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 61).

Example 56—Right to Use Intellectual Property

IE312. Using the same facts as Case A in Example 15 (see paragraphs IE66–IE70), the Agency identifies four performance obligations in a binding arrangement:

(a) The software license;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE313. The Agency assesses the nature of its promise to transfer the software license in accordance with paragraph AG105 of [draft] IPSAS [X] (ED 70). The Agency does not consider in its assessment of the criteria in paragraph AG105 of [draft] IPSAS [X] (ED 70) the promise to provide software updates, because they result in the transfer of an additional good or service to the State Government (the purchaser in Example 15) (see paragraph AG105(c)). The Agency also observes that it does not have any implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the license

period. The Agency observes that the software remains functional without the updates and the technical support and, therefore, the ability of the State Government to obtain the economic benefits or service potential of the software is not substantially derived from, or dependent on, the entity's ongoing activities. The Agency therefore determines that the binding arrangement does not require, and the State Government does not reasonably expect, the Agency to undertake activities that significantly affect the software (independent of the updates and technical support). The Agency concludes that the software to which the license relates has significant stand-alone functionality and none of the criteria in paragraph AG105 of [draft] IPSAS [X] (ED 70) are met. The Agency further concludes that the nature of the Agency's promise in transferring the license is to provide a right to use its intellectual property as it exists at a point in time. Consequently, the Agency accounts for the license as a performance obligation satisfied at a point in time.

Example 57—License of Intellectual Property

IE314. A government film library (the library) enters into a binding arrangement with a museum to license (for a period of three years) a collection of government-owned films for display in an exhibition. The binding arrangement also specifies that the museum will obtain any new films added to the collection by the library during the licensing period. The updates are integral to the museum's ability to generate economic benefits or service potential from the license during the license period, because the films relate to historical events which are considered relevant to current cultural views and public discourse.

IE315. The library assesses the goods and services promised to the museum to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The library determines that the museum can generate economic benefits or service potential from (a) the license on its own without the addition of the new films; and (b) the addition of the new films together with the initial license. Although the economic benefits or service potential that the museum could obtain from the license on its own (i.e., without the additional films) is limited because the updates are integral to the museum's ability to continue to attract significantly more visitors, the license can be used in a way that generates some economic benefits or service potential. Therefore, the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is met for the license and the addition of new films.

IE316. The fact that the economic benefits or service potential that the museum could obtain from the license on its own (i.e., without the addition of the new films) is limited (because the addition of the new films are integral to the museum's ability to attract more visitors) is also considered in assessing whether the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is met. Because the economic benefits or service potential that the museum could obtain from the license over the three-year term without the additions would be significantly limited, the library's promises to grant the license and to provide the expected additions are, in effect, inputs that together fulfill a single promise to deliver a combined item to the museum. That is, the nature of the library's promise in the binding arrangement is to provide ongoing access to the library's film collection for the three-year term of the binding arrangement. The promises within that combined item (i.e., to grant the license and to provide new films when-and-if-available) are, therefore, not separately identifiable in accordance with the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70).

IE317. The nature of the combined good or service that the library promised to transfer to the museum is ongoing access to the library's film collection for the three-year term of the binding arrangement. On the basis of this conclusion, the library applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether the single performance obligation is satisfied at

a point in time or over time. The library concludes that because the museum simultaneously receives and consumes the economic benefits or service potential of the library's performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 34(a) of [draft] IPSAS [X] (ED 70).

Example 58—Identifying a Distinct License

IE318. A university research facility (the Facility) licenses to a clinic its patent rights to a laser surgery technology for 10 years and also promises to manufacture the technology for the clinic. Laser surgery technology in general is mature; therefore, the Facility will not undertake any activities to support the technology, which is consistent with its customary practices.

Case A—License is Not Distinct

IE319. In this case, no other entity can manufacture this technology because of the highly specialized nature of the manufacturing process. As a result, the license cannot be purchased separately from the manufacturing services.

IE320. The Facility assesses the goods and services promised to the clinic to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Facility determines that the clinic cannot generate economic benefits or service potential from the license without the manufacturing service; therefore, the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is not met. Consequently, the license and the manufacturing service are not distinct and the Facility accounts for the license and the manufacturing service as a single performance obligation.

IE321. The Facility applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether the performance obligation (i.e., the bundle of the license and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—License is Distinct

IE322. In this case, the manufacturing process used to produce the laser surgery technology is not unique or specialized and several other entities can also manufacture the technology for the clinic.

IE323. The Facility assesses the goods and services promised to the clinic to determine which goods and services are distinct, and it concludes that the criteria in paragraph 26 of [draft] IPSAS [X] (ED 70) are met for each of the license and the manufacturing service. The Facility concludes that the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is met because the clinic can generate economic benefits or service potential from the license together with readily available resources other than the Facility's manufacturing service (because there are other entities that can provide the manufacturing service), and can generate economic benefits or service potential from the manufacturing service together with the license transferred to the clinic at the start of the binding arrangement.

IE324. The Facility also concludes that its promises to grant the license and to provide the manufacturing service are separately identifiable (i.e., the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is met). The Facility concludes that the license and the manufacturing service are not inputs to a combined item in this binding arrangement on the basis of the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70). In reaching this conclusion, the Facility considers that the clinic could separately purchase the license without

significantly affecting its ability to generate economic benefits or service potential from the license. Neither the license, nor the manufacturing service, is significantly modified or customized by the other and the Facility is not providing a significant service of integrating those items into a combined output. The Facility further considers that the license and the manufacturing service are not highly interdependent or highly interrelated because the Facility would be able to fulfill its promise to transfer the license independently of fulfilling its promise to subsequently manufacture the laser for the clinic. Similarly, the Facility would be able to manufacture the laser for the clinic even if the clinic had previously obtained the license and initially utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the license in this contract (i.e., the Facility would not provide the manufacturing service without the clinic having obtained the license), the license and the manufacturing service do not significantly affect each other. Consequently, the Facility concludes that its promises to grant the license and to provide the manufacturing service are distinct and that there are two performance obligations:

(a) License of patent rights; and

(b) Manufacturing service.

IE325. The Facility assesses, in accordance with paragraph AG105 of [draft] IPSAS [X] (ED 70), the nature of the Facility's promise to grant the license. The laser technology is a mature product (i.e., it has been approved, is currently being manufactured and has been provided at a surplus for the last several years). For these types of mature products, the Facility's customary practices are not to undertake any activities to support the laser technology. The technology has significant stand-alone functionality (i.e., its ability to be used in a way that treats a disease or condition). Consequently, the clinic obtains a substantial portion of the economic benefits or service potential of the laser technology from that functionality, rather than from the Facility's ongoing activities. The Facility concludes that the criteria in paragraph AG105 of [draft] IPSAS [X] (ED 70) are not met because the binding arrangement does not require, and the binding arrangement does not reasonably expect, the Facility to undertake activities that significantly affect the intellectual property to which the clinic has rights. In its assessment of the criteria in paragraph AG105 of [draft] IPSAS [X] (ED 70), the Facility does not take into consideration the separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the Facility's promise in transferring the license is to provide a right to use the Facility's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the clinic. Consequently, the Facility accounts for the license as a performance obligation satisfied at a point in time.

IE326. The Facility applies paragraphs 30–37 of [draft] IPSAS [X] (ED 70) to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Example 59—Access to Intellectual Property

IE327. Using the same scenario as Example 58, except the Facility is continuing research on its laser technology that is being licensed to the clinic, and the Facility has determined that the license and the manufacturing is one performance obligation. The Facility licenses the use of its laser technology to the clinic for a four-year term. Typically, the laser technology has been used in eye surgery. However, the Facility has also developed new uses for its laser technology, such as in hair follicle regeneration. In addition, the Facility has developed the use of different frequencies of lasers which can improve the effectiveness of its technology. The clinic (the

purchaser from Example 58) can use the Facility's technology in various ways, such as in eye surgeries, hair regrowth treatments or removal of skin tumors. The binding arrangement requires the clinic to use the laser technology in the various ways as outlined above.

IE328. In exchange for granting the license, the Facility receives a fixed payment of CU1 million in each year of the four-year term.

IE329. In accordance with paragraph 26 of [draft] IPSAS [X] (ED 70), the Facility assesses the goods and services promised to the clinic to determine which goods and services are distinct. The Facility concludes that it has no other performance obligations other than the promise to grant a license. That is, the additional activities associated with the license do not directly transfer a good or service to the clinic because they are part of the Facility's promise to grant a license.

IE330. The Facility assesses the nature of the Facility's promise to transfer the license in accordance with paragraph AG105 of [draft] IPSAS [X] (ED 70). In assessing the criteria, the Facility considers the following:

(a) The clinic reasonably expects (arising from the Facility's customary practices) that the Facility will undertake activities that will significantly affect the intellectual property to which the clinic has rights (i.e., the laser technology). This is because the Facility's activities (i.e., development of the various frequencies of the lasers as well as new uses for the laser) change the form of the intellectual property to which the clinic has rights. In addition, the ability of the clinic to generate economic benefits or service potential from the intellectual property to which the clinic has rights is substantially derived from, or dependent upon, the Facility's ongoing activities (i.e., the release of more effective lasers or new treatments which use the technology).

(b) The rights granted by the license directly expose the clinic to any positive or negative effects of the Facility's activities because the binding arrangement requires the clinic to use the latest laser frequencies when using the technology.

(c) Even though the clinic may generate economic benefits or service potential from those activities through the rights granted by the license, they do not transfer a good or service to the clinic as those activities occur.

IE331. Consequently, the Facility concludes that the criteria in paragraph AG105 of [draft] IPSAS [X] (ED 70) are met and that the nature of the Facility's promise to transfer the license is to provide the clinic with access to the Facility's intellectual property as it exists throughout the license period. Consequently, the Facility accounts for the promised license as a performance obligation satisfied over time (i.e., the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) is met).

IE332. The Facility entity applies paragraphs 38–44 of [draft] IPSAS [X] (ED 70) to identify the method that best depicts its performance in the license. Because the binding arrangement provides the clinic with unlimited use of the licensed technology for a fixed term, the Facility determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

Example 60—Right to use Intellectual Property (Recognition at a Point in Time)

IE333. A government-owned music archive (the Archive), licenses to a consumer products company (the Company) a 1975 recording of a national anthem by a noted orchestra. The Company has the right to use the recorded anthem in all commercials, including television, radio and online

advertisements for two years in Country A. In exchange for providing the license, the Archive receives fixed consideration of CU10,000 per month. The binding arrangement does not include any other goods or services to be provided by the Archive. The binding arrangement is non-cancellable.

IE334. The Archive assesses the goods and services promised to the Company to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Archive concludes that its only performance obligation is to grant the license. The Archive determines that the term of the license (two years), its geographical scope (the Company's right to use the recording only in Country A), and the defined permitted use for the recording (in commercials) are all attributes of the promised license in the binding arrangement.

IE335. In accordance with paragraph AG105 of [draft] IPSAS [X] (ED 70), the Archive assesses the nature of its promise to grant the license. The Archive does not have any contractual or implied obligations to change the licensed recording. The licensed recording has significant stand-alone functionality (i.e., the ability to be played) and, therefore, the ability of the Company to generate economic benefits or service potential of the recording is not substantially derived from the Archive's ongoing activities. The Archive therefore determines that the binding arrangement does not require, and the Company does not reasonably expect, the Archive to undertake activities that significantly affect the licensed recording (i.e., the criterion in paragraph AG105(a) is not met). Consequently, the Archive concludes that the nature of its promise in transferring the license is to provide the Company with a right to use the Archive's intellectual property as it exists at the point in time that it is granted. Therefore, the promise to grant the license is a performance obligation satisfied at a point in time. The Archive recognizes all of the revenue at the point in time when the Company can direct the use of, and obtain substantially all of the remaining generate economic benefits or service potential from, the licensed intellectual property.

IE336. Because of the length of time between the Archive's performance (at the beginning of the period) and the Company's monthly payments over two years (which are non-cancellable), the Archive considers the requirements in paragraphs 59–64 of [draft] IPSAS [X] (ED 70) to determine whether a significant financing component exists.

Example 61—Sales-based Royalty for a License of Intellectual Property

IE337. The government research facility (the Facility) in Examples 58 and 59, licenses its laser technology to a clinic. The clinic, which performs various laser surgeries, has the right to use the laser technology for six years. Additionally, the Facility has agreed to (a) provide promotional materials and signage to the clinic for display at the clinic's premises before the beginning of the six-year license period; and (b) sponsor radio advertisements for laser surgeries in the clinic's geographical area throughout the six-year license period. In exchange for providing the license and the additional promotional goods and services, the Facility will receive a portion of the clinic's sales for use of its laser technology (i.e., variable consideration in the form of a sales-based royalty).

IE338. The Facility concludes that the license to use the laser technology is the predominant item to which the sales-based royalty relates because the Facility has a reasonable expectation that the clinic would ascribe significantly more value to the license than to the related promotional goods or services. The Facility recognizes revenue from the sales-based royalty, the only consideration to which the Facility is entitled under the binding arrangement, wholly in accordance with paragraph AG111 of [draft] IPSAS [X] (ED 70). If the license, the promotional

materials and activities are separate performance obligations, the Facility would allocate the sales-based royalty to each performance obligation.

Example 62—Access to Intellectual Property

IE339. The Department of Tourism (the Department) licenses the use of its name and logo to a purchaser in the tourism sector. The purchaser, a tour operator, has the right to use the Department's name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the license, the Department will receive fixed consideration of CU2 million and a royalty of five percent of the sales price of any items using the Department's name or logo. The tour operator expects that the Department will continue to promote local tourist attractions in the region.

IE340. The Department assesses the goods and services promised to the tour operator to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Department concludes that its only performance obligation is to transfer the license. The additional activities associated with the license (i.e., continuing to promote tourist attractions) do not directly transfer a good or service to the tour operator because they are part of the Department's promise to grant the license.

IE341. The Department assesses the nature of its promise to transfer the license in accordance with paragraph AG105 of [draft] IPSAS [X] (ED 70). In assessing the criteria, the Department considers the following:

(a) The Department concludes that the tour operator would reasonably expect that the Department will undertake activities that will significantly affect the intellectual property (i.e., the Department name and logo) to which the tour operator has rights. This is on the basis of the Department's customary practice to undertake activities that support and maintain the value of the name and logo such as continuing to promote attractions in the region. The Department determines that the ability of the tour operator to generate economic benefits or service potential from the name and logo is substantially derived from, or dependent upon, the expected activities of the Department. In addition, the Department observes that because some of its consideration is dependent on the success of the tour operator (through the sales-based royalty), the Department has a shared economic interest with the tour operator, which indicates that the tour operator will expect the Department to undertake those activities to maximize earnings.

(b) The Department observes that the rights granted by the license (i.e., the use of the Department's name and logo) directly expose the tour operator to any positive or negative effects of the Department's activities.

(c) The Department also observes that even though the tour operator may generate economic benefits or service potential from the activities through the rights granted by the license, they do not transfer a good or service to the tour operator as those activities occur.

IE342. The Department concludes that the criteria in paragraph AG105 of [draft] IPSAS [X] (ED 70) are met and the nature of the Department's promise to grant the license is to provide the tour operator with access to the Department's intellectual property as it exists throughout the license period. Consequently, the Department accounts for the promised license as a performance obligation satisfied over time (i.e., the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) is met).

IE343. The Department then applies paragraphs 38–44 of [draft] IPSAS [X] (ED 70) to determine a measure of progress that will depict the Department's performance. For the consideration that is in the form of a sales-based royalty, paragraph AG111 of [draft] IPSAS [X] (ED 70) applies because the sales-based royalty relates solely to the license, which is the only performance obligation in the binding arrangement. The Department concludes that recognition of the CU2 million fixed consideration as revenue rateably over time plus recognition of the royalty as revenue as and when the tour operator's sales of items using the Department's name or logo occur reasonably depicts the Department's progress towards complete satisfaction of the license performance obligation.

Repurchase Agreements

Illustrating the Consequences of Applying Paragraphs AG114-AG126 of [draft] IPSAS [X]

IE344. Example 63 illustrates the requirements in paragraphs AG114–AG126 of [draft] IPSAS [X] (ED 70) on repurchase agreements.

Example 63—Repurchase Agreements

IE345. A local government enters into a binding arrangement with a local farmer for the sale of undeveloped land on January 1, 20X3 for CU1 million. The undeveloped land is currently unused by the local government but may be used for the construction of roads in future.

Case A—Call Option: Financing

IE346. The binding arrangement includes a call option that gives the local government the right to repurchase the land for CU1.5 million on or before December 31, 20X7—i.e., within five years' time.

IE347. Control of the asset does not transfer to the local farmer on January 1, 20X3 because the local government has a right to repurchase the land and therefore the local farmer is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the land. Consequently, in accordance with paragraph AG116(b) of [draft] IPSAS [X] (ED 70), the local government accounts for the transaction as a financing arrangement, because the exercise price is more than the original price. In accordance with paragraph AG118 of [draft] IPSAS [X] (ED 70), the local government does not derecognize the land and instead recognizes the cash received as a financial liability. The local government also recognizes interest expense over time for the difference between the exercise price (CU1.5 million) and the cash received (CU1 million), which increases the liability over time.

IE348. On December 31, 20X7, the option lapses unexercised; therefore, the local government derecognizes the liability and recognizes revenue of CU1.5 million.

Case B—Put Option: Lease

IE349. Instead of having a call option, the binding arrangement includes a put option that obliges the local government to repurchase the land at the local farmer's request for CU1.5 million on or before December 31, 20X7. The market value is expected to be CU1.35 million on December 31, 20X7. The objective of the binding arrangement is to support the agriculture industry in the current economic climate through the provision of land to the local farmer during the period of the binding arrangement, as well as a CU150,000 subsidy, or the difference between the exercise price of the put option and the expected market value, upon the exercise of the put option.

IE350. At the inception of the binding arrangement, the local government assesses whether the local farmer has a significant economic incentive to exercise the put option, to determine the accounting for the transfer of the land (see paragraphs AG120–AG126 of [draft] IPSAS [X] (ED 70)). The local government concludes that the local farmer has a significant economic incentive to exercise the put option because the repurchase price significantly exceeds the expected market value of the land at the date of repurchase. The local government determines there are no other relevant factors to consider when assessing whether the local farmer has a significant economic incentive to exercise the put option. Consequently, the local government concludes that control of the land does not transfer to the local farmer, because the local farmer is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the land.

IE351. In accordance with paragraphs AG120–AG121 of [draft] IPSAS [X] (ED 70), the local government accounts for the transaction as a lease in accordance with IPSAS 13, *Leases*.[15]

Bill-and-Hold Arrangements

Illustrating the Consequences of Applying Paragraphs AG129 - AG132 of [draft] IPSAS [X]

IE352. Example 64 illustrates the requirements in paragraphs AG129 – AG132 of [draft] IPSAS [X] (ED 70) on bill-and-hold arrangements.

Example 64—Bill-and-Hold Arrangement

IE353. A government mint (the Mint) enters into a binding arrangement with a sporting event committee (the Committee) on January 1, 20X8 for the sale of two batches of commemorative coins, each relating to a different event. The manufacturing lead time for the coins is one year.

IE354. Upon completion of the coins, the Mint demonstrates that the coins meet the agreed-upon specifications in the binding arrangement. The promises to transfer the two batches of coins are distinct and result in two performance obligations that each will be satisfied at a point in time. On December 31, 20X8, the Committee pays for both batches of coins, but only takes physical possession of the first batch of coins, as the event relating to the second batch is not scheduled to occur for another two years. Although the Committee inspects and accepts the second batch of coins, the Committee requests that the second batch be stored at the Mint's warehouse for two years due to better security at their premises. The Committee has legal title to the second batch of coins and the coins can be identified as belonging to the Committee. Furthermore, the Mint stores the second batch of coins in a separate section of its warehouse and the coins ready for immediate shipment at the Committee's request. The Mint expects to hold the second batch of coins for up to two years and the Mint does not have the ability to use the second batch of coins or direct them to another purchaser.

IE355. The Mint identifies the promise to provide custodial services as a performance obligation because it is a service provided to the Committee and it is distinct from the two batches of coins. Consequently, the Mint accounts for three performance obligations in the binding arrangement (the promises to provide the two batches of commemorative coins and the

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[15] The IPSASB is currently undertaking a project to align its guidance on leases with IFRS 16, *Leases*. As a result, this example is subject to change depending on the outcome of the Leases project. Specifically, if the IPSASB departs from the IASB in lessor accounting, the wording will have to be amended.

custodial services). The transaction price is allocated to the three performance obligations and revenue is recognized when (or as) control transfers to the Committee.

IE356. Control of the first batch of coins transfers to the Committee on December 31, 20X8 when the Committee takes physical possession. The Mint assesses the indicators in paragraph 37 of [draft] IPSAS [X] (ED 70) to determine the point in time at which control of the second batch of coins transfers to the Committee, noting that the Mint has received payment, the Committee has legal title to the second batch of coins, and the Committee has inspected and accepted the second batch. In addition, the Mint concludes that all of the criteria in paragraph AG131 of [draft] IPSAS [X] (ED 70) are met, which is necessary for the Mint to recognize revenue in a bill-and-hold arrangement. The Mint recognizes revenue for the second batch of coins on December 31, 20X8 when control transfers to the Committee.

IE357. The performance obligation to provide custodial services is satisfied over time as the services are provided. The Mint considers whether the payment terms include a significant financing component in accordance with paragraphs 59–64 of [draft] IPSAS [X] (ED 70).

Comparison with IFRS 15

The revenue accounting requirements in [draft] IPSAS [X] (ED 70) are drawn primarily from IFRS 15 (issued in 2014, including amendments up to December 31, 2016). The main differences between these requirements in [draft] IPSAS [X] and IFRS 15 are as follows:

- IFRS 15 applies to contracts to deliver goods or services to customers. [Draft] IPSAS [X] (ED 70) applies to binding arrangements, which can be broader than a contract, and contains additional guidance on the identification of binding arrangements and enforceability.
- Although IFRS 15 does apply to three-party arrangements, the Standard does not have explicit guidance on these transactions. [draft] IPSAS [X] (ED 70) contains explicit and extensive guidance on third-party beneficiaries, as transactions involving three parties are more prevalent in the public sector.
- [Draft] IPSAS [X] (ED 70) contains additional guidance on public sector specific transactions, for example, transactions with performance obligations that an entity is compelled to satisfy regardless of the purchaser's ability or intention to pay and where the collection of consideration is not probable. [Draft] IPSAS [X] (ED 70) also contains guidance on accounting for transactions with components within the scope of both [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71).
- [Draft] IPSAS [X] (ED 70) uses different terminology, in certain instances, from IFRS 15. The most significant examples are the use of the terms "purchaser", "provide", "stand-alone price", "customary practices", "sector", and "economic substance". The equivalent terms in IFRS 15 are "customer", "sell", "stand-alone selling price", "customary business practices", "industry", and "commercial substance".

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Published by:

IPSASB
International Public
Sector Accounting
Standards Board®

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.ipsasb.org

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Exposure Draft (ED) 71 Summary— *Revenue without Performance Obligations*

This summary provides an overview of Exposure Draft (ED) 71, *Revenue without Performance Obligations.*

Project Objective: The aim of Exposure Draft (ED) 71 is to develop a standard that provides recognition and measurement requirements for revenue transactions that do not have performance obligations. This ED is intended to update IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).* This ED is part of a suite of three EDs that address how to account for revenue and transfer expenses, and should be read in conjunction with:

- ED 70, *Revenue with Performance Obligations*; and
- ED 72, *Transfer Expenses*.

Project stage: The IPSASB issued ED 71 in February 2020.

Next steps: The International Public Sector Accounting Standards Board ® (IPSASB®) seeks feedback on ED 71 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that establishes requirements for accounting for revenue without performance obligations.

Comment Date: The ED is open for public comment through September 15, 2020.

How to Respond: Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link on the ED page. Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.

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Why the IPSASB Undertook this Project

The purpose of the IPSASB's project stream on revenue without performance obligations is to update IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to provide recognition and measurement requirements for revenue transactions without performance obligations.

The primary objective of most public sector entities is to deliver goods or services to the public. As a result, the majority of transactions in the public sector relate to revenue and transfer expenses. There are currently three IPSAS on revenue recognition—IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*—but no existing guidance on transfer expenses.

To improve its standards and to develop requirements and guidance on topics not currently addressed by existing IPSAS, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* in August 2017. Based on responses to the CP, other drivers behind the development of the revenue project include:

- Consideration of whether to replace the exchange versus non-exchange distinction for classification of revenue with a focus on whether transactions include a performance obligation;
- Approaches for revenue recognition; and
- Measurement of non-contractual receivables and payables.

From the CP, three EDs were developed:

- ED 70, *Revenue with Performance Obligations*, which is aligned with IFRS 15, *Revenue from Contracts with Customers*;
- ED 71, *Revenue without Performance Obligations*, is an update of IPSAS 23; and
- ED 72, *Transfer Expenses*, which proposes the accounting for transfer expenses and fills a significant gap in the IPSASB's literature.

This 'At a Glance' document will focus on the proposals in ED 71 only.

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Scope of ED 71

Table 1 illustrates the scope of ED 71, *Revenue without Performance Obligations*, and how it interacts with ED 70, and ED 72.

Table 1: Scope of ED 71, *Revenue without Performance Obligations*

Description	Revenue with Performance Obligations (ED 70)	Revenue without Performance Obligations (ED 71)			Transfer Expenses (ED 72)			Outside the scope of Transfer Expenses (ED 72)
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B, creating a present obligation for Entity B		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

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Key Definitions

ED 71 focuses on present obligations that are not performance obligations.

A present obligation is a binding obligation resulting in an outflow of resources which an entity has little or no realistic alternative to avoid.

A transfer provider may provide resources to a transfer recipient as required in a binding arrangement with an understanding that they will be used in a particular way.

ED 71 addresses present obligations that are not performance obligations. A performance obligation is a specific type of present obligation is addressed in ED 70

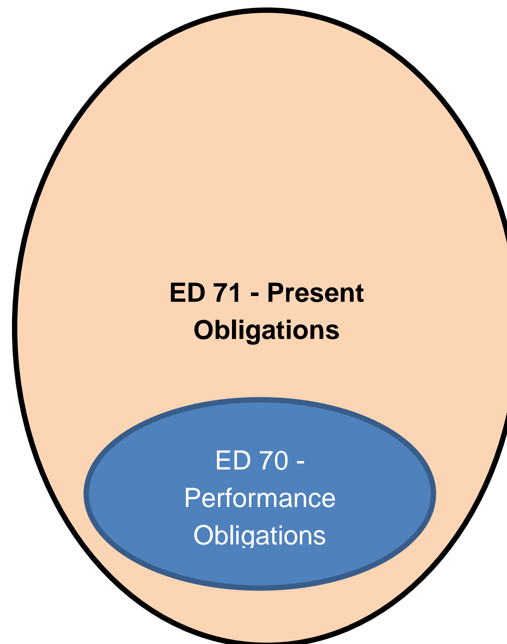

Diagram not to scale

Present Obligations addressed in ED 71

A **capital transfer** is an inflow that arises from a binding arrangement, or cash or another asset with a requirement that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient.

Capital transfers are within the scope of ED 71 and not ED 70 because there is no requirement to transfer the asset once acquired or constructed.

An example of a capital transfer is using resources provided to build a hospital.

Eligible expenditure is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. Eligible expenditure does not have an identifiable specified activity.

A **specified activity** is an action in a binding arrangement that must be completed by a transfer recipient.

An example of eligible expenditure is using resources to pay the salary for a particular position – e.g., medical specialist

An example of a specified activity is using resources to buy hospital beds for a hospital.

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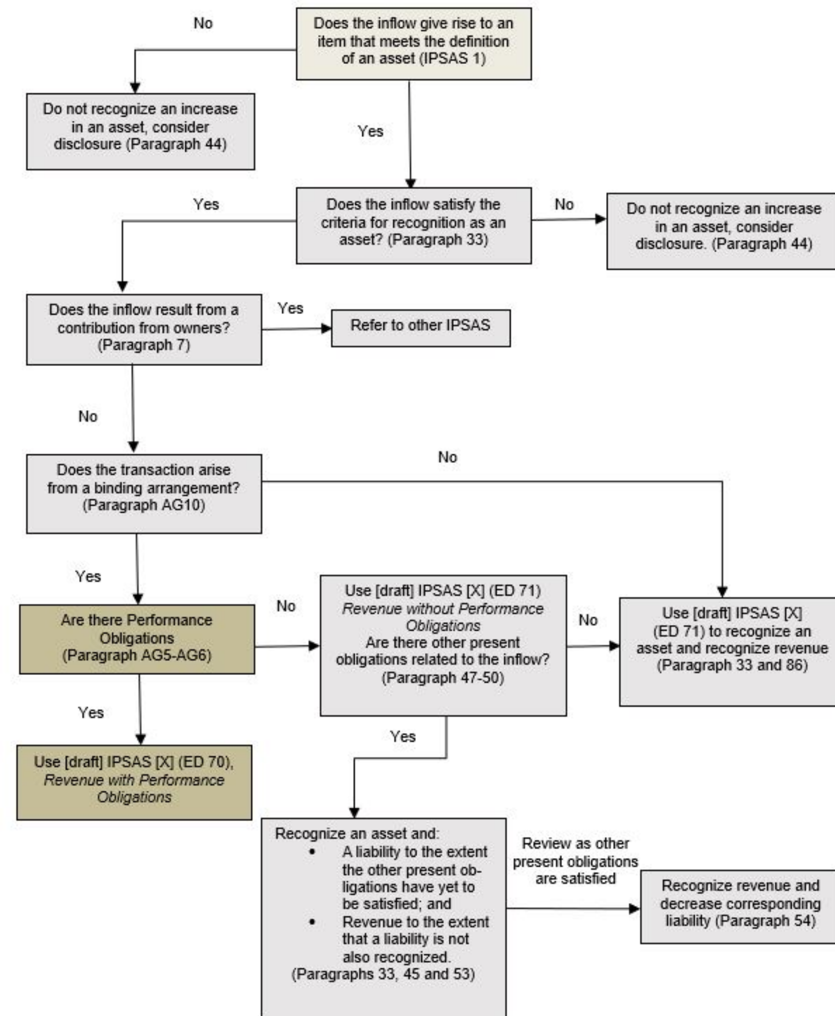
Accounting for Revenue without Performance Obligations

ED 71 addresses how to account for revenue transactions that do not have performance obligations (as defined in ED 70).



Note: Grey boxes relate to ED 71 and Brown boxes relate to ED 70.

The proposed ED 71 Revenue Recognition Model

The approach is illustrated in the flowchart above has several relevant decision points:

- Is there an asset that can be recognized?
- Does the inflow result from a contribution from owners?
- Does the transaction arise from a binding arrangement?
- Are there performance obligations?
- Are there other present obligations?
- Recognize revenue when (or as) present obligations are met.

Step 1 – Is there an asset to be recognized?

If there is no asset to be recognized, then there is no revenue to be recognized. If an asset meets the definition and recognition criteria move onto Step 2.

Step 2 – Does the inflow result from a contribution from owners?

Contributions from owners are not revenue and are therefore outside the scope of ED 71. If the inflow is not a contribution from owners move onto Step 3.

Step 3 – Does the transaction arise from a binding arrangement?

If the transaction does not arise from a binding arrangement then revenue is recognized when the transfer recipient has control of the resources (DR Resources (e.g., Cash) CR Revenue). If the transaction arises from a binding arrangement move onto Step 4.

Step 4 – Are there performance obligations in the binding arrangement?

If there are performance obligations in the binding arrangement, then the proposals in ED 70 are the correct requirements to use. If there are no performance obligations, move onto Step 5.

Step 5 – Are there present obligations in the binding arrangement?

If there are no present obligations in the binding arrangement, then revenue is recognized when the transfer recipient has control of the resources (the same as in Step 3). If there are present obligations move onto Step 6.

Step 6 – Recognize revenue when (or as) present obligations are met.

If the transaction has present obligations then when the transfer recipient has control of the resources, they will initially recognize an asset and a liability (e.g., DR Cash, CR Liability). As the present obligations are met, the transfer recipient will recognize revenue and derecognize the liability to the extent of the revenue recognized. (e.g., DR Liability, CR Revenue)

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Differences from IPSAS 23

ED 71 makes proposals that will update the requirements in IPSAS 23. In particular:

- Guidance on appropriations has been included;
- Guidance on capital transfers has been included; and
- The disclosure requirements for services in-kind have been strengthened.

Transfers Subject to Appropriations

In some jurisdictions, a binding arrangement for revenue without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

In such circumstances, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. The transfer recipient will need to consider substance over form and determine whether this limitation means that the transfer recipient does not have control of those resources prior to the appropriation being authorized.

Where a transfer recipient has an enforceable right to the resources from the transfer provider prior to the approval of the appropriation, the transfer recipient has control over those resources and recognizes an asset for future transfers prior to the appropriation being authorized.

If a transfer recipient does not have an enforceable right to the resources prior to the appropriation being authorized, the transfer recipient only recognizes an asset when the appropriation has been authorized.

Capital Transfers

Capital transfers are an important aspect of public sector transactions; they allow transfer recipients to acquire and control non-financial assets.

A binding arrangement for a capital transfer generally has a present obligation for a transfer recipient to either purchase or construct a non-financial asset. Initially the transfer recipient will recognize an asset (for the resources they control) and an associated liability. As the present obligation is satisfied as set out in the binding arrangement, revenue is recognized, and the liability is reduced.

Services in-kind

IPSAS 23 currently encourages disclosure of the nature and type of services in-kind received, even if not recognized. The proposals in ED 71 takes these disclosures further by:

- Requiring disclosure of services in-kind that have been recognized; and
- Strongly encouraging qualitative disclosure about the nature and type of services in-kind received particularly if those services in-kind are integral to the transfer recipient's operations.

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Next Steps

The deadline for comments is September 15, 2020.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on ED 71 will be discussed. The dates and locations of 2020 meetings are available at: http://www.ipsasb.org/meetings. To stay up to date about the project, please visit: http://www.ipsasb.org/projects/revenue.

Specific Matters for Comment

ED 71 includes seven Specific Matters for Comment, which cover the following issues:

SMC 1: That a present obligation exists due to requirements related to a specified activity or eligible expenditure.

SMC 2: That the flowchart in ED 71 illustrates the process and relevant paragraphs for revenue recognition.

SMC 3: That sufficient guidance exists to determine when a present obligation is satisfied and when revenue should be recognized.

SMC 4: That sufficient guidance exists to determine how to allocate the transaction price between different present obligations.

SMC 5: The subsequent measurement of receivables should be in accordance with IPSAS 41.

SMC 6: The disclosure requirements are appropriate.

SMC 7: The structure of the proposed Standard is appropriate.

Exposure Draft 71
February 2020
Comments due: September 15, 2020

IPSAS®

Proposed International Public Sector Accounting Standard®

Revenue without Performance Obligations

IPSASB International Public Sector Accounting Standards Board®

International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS, RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Revenue without Performance Obligations*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by September 15, 2020.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

This Exposure Draft forms part of the IPSASB's project on Revenue.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about revenue without performance obligations.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

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?

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?

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?

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?

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?

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?

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?

ED 71, REVENUE WITHOUT PERFORMANCE OBLIGATIONS

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity (transfer recipient) shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from transactions without performance obligations (as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*.

2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that a transfer recipient shall recognize an asset and the associated revenue to the extent it has satisfied any present obligations associated with the transaction. A transfer recipient shall consider the terms of the arrangement, and all relevant facts and circumstances, when applying this [draft] Standard. Paragraph AG2 provides additional guidance on the Objective.

Scope

3. **A transfer recipient that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue from transactions without performance obligations. This [draft] Standard does not apply to:**

   (a) **Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70);**

   (b) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26-31 of IPSAS 42, *Social Benefits* (the insurance approach);**

   (c) **A public sector combination that is a non-exchange transaction;**

   (d) **The accounting for contributions from owners;**

   (e) **Lease contracts within the scope of IPSAS 13, *Leases*;**

   (f) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[1];**

   (g) **Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, *Financial Instruments*;**

   (h) **Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements*: *Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36*, Investments in Associates and Joint Ventures,* IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits* and IPSAS 40, *Public Sector Combinations*;**

   (i) **Gains from the sale of non-financial assets that are not an output of a transfer recipient's activities and within the scope of IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets;***

---

[1] There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on Insurance contracts.

(j) **Changes in the value of current and non-current assets arising from subsequent measurement;**

(k) **Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and**

(l) **The extraction of mineral resources.**

4. This [draft] Standard addresses revenue arising from transactions without performance obligations. This includes transactions arising from binding arrangements and those not arising from a binding arrangement. Revenue arising from transactions with performance obligations is addressed in [draft] IPSAS [X] (ED 70). While revenues received by public sector entities arise from both transactions with and without performance obligations, the majority of revenue of governments and other public sector entities is typically derived from transactions without performance obligations, such as:

   (a) Taxes;

   (b) Capital transfers; and

   (c) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods or services in-kind, and the off-market portion of concessionary loans received.

5. Revenue transactions without performance obligations are transactions where there is no requirement for a transfer recipient to transfer any goods or services to a transfer provider or a third-party beneficiary. Transactions within the scope of this [draft] Standard differ from those within the scope of [draft] IPSAS [X] (ED 70) where a performance obligation does require a transfer of goods, services or other assets to either the purchaser (transfer provider) or a third-party beneficiary.

Public Sector Combinations

6. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Public sector combinations are accounted for in accordance with IPSAS 40.

Contributions from Owners

7. Contributions from owners are defined in IPSAS 1, *Presentation of Financial Statements*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 8 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the transfer recipient will pay fixed distributions to the transfer provider, with a return of the transfer provider's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in

IPSAS 28, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

8. A contribution from owners may be evidenced by, for example:

   (a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;

   (b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or

   (c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

Transactions with Components with Performance Obligations and Components without Performance Obligations (Hybrid Transactions)

9. Where revenue transactions include components with performance obligations and components without performance obligations, professional judgment is required to determine whether the different components are identifiable. Where the components are identifiable, the transfer recipient recognizes the revenue from the component with performance obligations according to the principles and requirements of [draft] IPSAS [X] (ED 70). The revenue component without performance obligations is recognized according to the principles and requirements of this [draft] Standard. Where it is not possible to distinguish between the components with performance obligations and the components without performance obligations, the transaction is accounted for in accordance with [draft] IPSAS [X] (ED 70). [Draft] IPSAS [X] (ED 70) paragraphs AG69 – AG70 provide additional guidance.

Definitions

10. **The following terms are used in this [draft] Standard with the meanings specified:**

    A <u>capital transfer</u> is an inflow, that arises from a binding arrangement, of cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG24 provides additional guidance.)

    <u>Eligible expenditure</u> is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. (Paragraphs AG25-AG26 provide additional guidance.)

    <u>Expenses paid through the tax system</u> are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

    <u>Fines</u> are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.

    <u>Other compulsory contributions and levies</u> is cash or another asset, paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

    A <u>specified activity</u> is an action in a binding arrangement that must be completed by a transfer recipient. (Paragraph AG27 provides additional guidance.)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.

For the purposes of this [draft] Standard, the transaction price is the amount of consideration to which a transfer recipient expects to be entitled in a transaction without performance obligations.

A transfer is a transaction, other than taxes, in which an entity receives a good, service, or other asset[2] from another entity (which may be an individual) without directly providing any good, service, or other asset in return.

A transfer provider is an entity that provides a good, service or other asset to another entity without directly receiving any good, service or other asset in return.

A transfer recipient is an entity that receives a good, service, or other asset from another entity without directly providing any good, service, or other asset to that entity.

A transfer recipient's binding arrangement asset is an entity's right to a transfer to satisfy a present obligation when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A transfer recipient's binding arrangement liability is an entity's obligation to satisfy a present obligation for which the entity has received an amount (or the amount is due) from the transfer provider.

11. The following terms are defined in [draft] IPSAS [X] (ED 70) and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

    (a) A binding arrangement (paragraphs AG10-AG15 provide additional guidance);

    (b) Control of an asset:

    (c) A performance obligation; and

    (d) A third-party beneficiary.

    Revenue is defined in IPSAS 1 and [draft] IPSAS [X] (ED 70).

    Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity (transfer recipient), which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties are not considered revenue of the agent,

[2] The definition of a transfer includes references to other asset (such as non-current assets) for completeness. Elsewhere in this [draft] Standard, references to goods and services or to goods or services are to be read as incorporating references to assets.

as these amounts will not give rise to an increase in net assets/equity of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

13. Where a transfer recipient incurs some cost in relation to revenue arising from a transaction without performance obligations, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a transfer recipient is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (transfer provider), those costs are recognized separately from revenue arising from the transfer of the item of, plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17.

Present Obligations

14. 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.

15. Goods, services, or other assets may be transferred by a transfer provider with the expectation and/or understanding that they will be used in a particular way and, therefore, that the transfer recipient will act or perform in a particular way. Where binding arrangements with external parties impose terms on the use of transferred assets by the transfer recipient, a present obligation exists.

16. 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. Further such an arrangement leads to an outflow of resources because the transfer recipient 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.

17. The transfer recipient considers whether an obligation to perform a specified activity or incur an eligible expenditure is a present obligation.

Specified Activity

18. A specified activity is a particular action, stated in a binding arrangement, that the transfer provider can compel the transfer recipient to perform, such as construct a hospital or conduct a form of research. Where a specified activity is imposed by the transfer provider as part of the terms of the transfer, a present obligation is created for the transfer recipient.

19. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer in the delivery of the specified activity or return resources to the transfer provider or incur another form of redress.

Eligible Expenditure

20. A binding arrangement may require a transfer to be used by a transfer recipient for a particular purpose and incur eligible expenditure for that purpose, but does not have an identifiable specified activity.

21. Where a requirement to incur eligible expenditure exists in a binding arrangement, the transfer recipient accepts a present obligation to use the transfer as directed. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer on eligible expenditure or return resources to the transfer provider or incur another form of penalty.

Enforceability of binding arrangements – Substance over form

22. A transfer recipient considers the substance rather than the form of a binding arrangement in determining whether it has a present obligation.

23. For a binding arrangement to give rise to a present obligation, it is necessary that the transfer recipient cannot avoid an outflow of resources—therefore, the transaction must be enforceable by an external party (which is typically the transfer provider). Therefore, fulfillment of the present obligation constitutes an outflow of resources, as does a return of resources or the imposition of some other redress in the event that the transfer recipient breaches the terms of the binding arrangement.

24. In determining whether an arrangement is binding, the transfer recipient considers whether the transfer provider would enforce the arrangement in the event of a breach. If past experience or knowledge indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. If the transfer recipient does not have this experience or knowledge, then the transfer recipient assumes that the transfer provider would enforce the binding arrangement and, therefore, enforceability has substance.

25. For a present obligation to exist, it is necessary that an outflow of resources will be probable as a result of the agreed obligations being completed or incurred by the transfer recipient. Whether an outflow is probable will be based on the transfer provider's ability to enforce the fulfillment of agreed obligations by the transfer recipient.

26. As an administrative convenience, a transfer may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The transfer recipient will still recognize the gross amounts in its financial statements: that is, the transfer recipient will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

Taxes

27. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 10 as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of transactions without performance obligations. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

28. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government

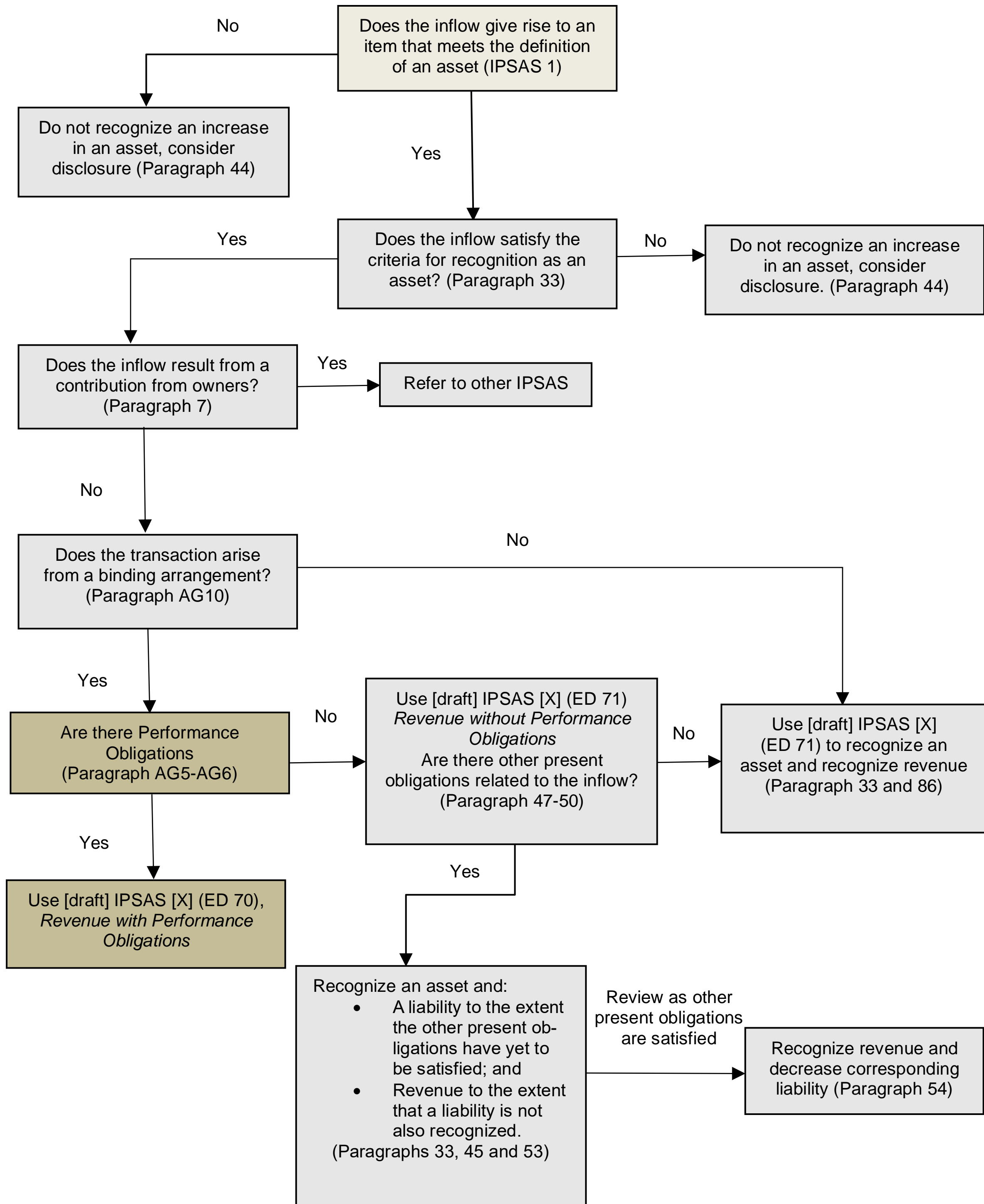
is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

29. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer. A binding arrangement, as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, creates both enforceable rights and obligations on both parties to the arrangement and not a single right and obligation on each party.

30. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Analysis of the Initial Inflow of Resources from Revenue Transactions without Performance Obligations

31. A transfer recipient recognizes an asset arising from an inflow of resources arising from a revenue transaction without performance obligations when it gains control of those resources. A transfer recipient is considered to control an inflow of resources when the definition of an asset and the recognition criteria are met. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the transfer recipient will recognize as a liability until the obligations are satisfied. Contributions from owners do not give rise to revenue, so each type of inflow of resources is analyzed, and any contributions from owners are accounted for separately. The flow chart on the following page illustrates the analytic process a transfer recipient undertakes when there is an inflow of resources to determine whether and when revenue is recognized. The following flowchart identifies the relevant paragraphs in this [draft] Standard related to asset, liability and revenue recognition and measurement, for revenue transactions without performance obligations. Requirements for the treatment of transactions are set out in paragraphs 32–154.



* The flowchart is illustrative only. It does not take place of this [draft] Standard and is provided as an aid to interpreting this [draft] Standard.

* In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

* In determining whether the entity has satisfied all of the present obligations, the application of the definitions of specified activity or eligible expenditure, and the criteria for recognizing a liability, are considered.

Recognition of Assets Arising from Resource Inflows

32. Assets are defined in IPSAS 1 as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

33. **An inflow of resources from a transaction without performance obligations, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:**

    (a) **It is probable that the future economic benefits or service potential associated with the asset will flow to the transfer recipient; and**

    (b) **The value of the asset can be measured reliably.**[3]

Control of an Asset

34. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes a transfer recipient's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 110, entities may, but are not required, to recognize services in-kind.

35. An announcement of an intention to transfer resources to a public sector transfer recipient is not of itself sufficient to identify resources as controlled by a transfer recipient. For example, if a public school were destroyed by a forest fire and a government (transfer provider) announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where an agreement is required before resources can be transferred, a transfer recipient will not identify the resources as controlled until such time as the agreement is binding, because the transfer recipient cannot exclude or regulate the access of the transfer provider to the resources. In many instances, the transfer recipient will need to establish enforceability of its control of resources before it can recognize an asset. If a transfer recipient does not have an enforceable claim to resources, it cannot exclude or regulate the transfer provider's access to those resources.

Appropriations

36. When a binding arrangement specifies that the resources to be transferred to the transfer recipient by a transfer provider are subject to the appropriation being authorized, the transfer recipient considers substance over form in determining whether the transfer recipient has control of those resources prior to the appropriation being authorized.

37. The limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance when the transfer recipient can establish an enforceable right

[3] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

to those resources, before the appropriation is authorized. Paragraphs AG28-AG32 provides additional guidance on appropriations.

Past Event

38. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

39. An inflow of resources is probable when the inflow is more likely than not to occur. The transfer recipient bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transfer provider. For example, where (a) a government (transfer provider) agrees to transfer funds to a public sector transfer recipient, (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

40. **A transfer recipient shall account for an asset that is within the scope of this [draft] Standard only when it is probable that the transfer recipient will collect and/or receive the inflow of resources. In evaluating whether collectability of an inflow is probable, a transfer recipient shall consider only the transfer provider's ability and intention to pay. The amount of the inflow that the transfer recipient expects to collect from the transfer provider may be less than the amount stated in the binding or other arrangement if the inflow is variable (see paragraph 64).**

Subsequent Consideration of Asset Recognition Criteria

41. **A transfer recipient shall continue to assess the arrangement to determine whether the criteria for asset recognition in paragraph 40 are subsequently met.**

42. **When an arrangement with a transfer provider within the scope of this [draft] Standard does not meet the criteria in paragraph 40 and a transfer recipient receives an inflow of resources from the transfer provider, the transfer recipient shall recognize the inflow received as revenue only when either of the following events has occurred:**

    (a) **The transfer recipient has no present obligation; or**

    (b) **The arrangement has been terminated and the inflow received from the transfer provider is non-refundable.**

43. **A transfer recipient shall recognize the inflow received from a transfer provider as a liability until one of the events in paragraph 42 occurs or until the criteria in paragraph 40 are subsequently met (see paragraph 41). Depending on the facts and circumstances relating to the arrangement, the liability recognized represents the transfer recipient's present obligation to act or perform in a certain way. The liability shall be measured at the amount of inflow received from the transfer provider.**

Contingent Assets

44. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

Transfers with Present Obligations

Recognition of Liabilities

45. **When a transfer recipient recognizes an asset for an inflow of resources, it shall consider if there are present obligations related to the inflow which result in the recognition of a liability**

46. **A present obligation arising from a transaction without a performance obligation that meets the definition of a liability shall be recognized as a liability when, and only when:**

    (a) **It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and**

    (b) **A reliable estimate can be made of the amount of the obligation.**

Present Obligation

47. A present obligation is a duty to act or perform in a particular way and may give rise to a liability in respect of any transaction without a performance obligation. Present obligations may be imposed by requirements in binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

48. In many instances, assets are transferred to public sector entities in transactions without performance obligations pursuant to binding arrangements that impose requirements that they be used for particular purposes. Examples of such transfers, established by a binding arrangement that require a present obligation be satisfied, may include:

    (a) Transfers from national governments to provincial, state or local governments;

    (b) Transfers from state/provincial governments to local governments;

    (c) Transfers from governments to other public sector entities;

    (d) Transfers to governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

    (e) Transfers from donor agencies to governments or other public sector entities.

49. A transfer recipient shall recognize a liability that is within the scope of this [draft] Standard only when it has a present obligation as noted in paragraph 47.

50. If a transfer recipient receives resources prior to both parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

Past Event

51. Public sector entities typically obtain assets from governments, other entities, or by purchasing or producing them. When the receipt of these assets results in the transfer recipient having to satisfy a present obligation, the transfer recipient recognizes a liability. Therefore, the past event that gives rise to an unavoidable obligation is the agreement to the terms of the binding arrangement by both the transfer provider and transfer recipient, when the binding arrangement gives rise to a present obligation. Transactions or events expected to occur in the future do not in themselves give rise to present obligations.

Outflow of resources

52. For revenue transactions without performance obligations, the outflow of resources from a binding arrangement represents resources that are expected to be used by the transfer recipient in fulfilling its obligation to use the transfer received from the transfer provider in a particular way or to act or perform in a certain way (i.e., satisfy other present obligations). This obligation results in an outflow of resources because the transfer recipient 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, by incurring some other form of redress to the transfer provider.

Recognition of Revenue

53. **When an inflow of resources arises from a transaction without performance obligations, but with present obligations, is recognized as an asset, revenue shall also be recognized, except to the extent that a liability is recognized for any unsatisfied present obligations in respect of the same inflow.**

54. **When (or as) a transfer recipient satisfies a present obligation recognized as a liability in respect of an inflow of resources from a transaction without performance obligations recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.**

55. When a transfer recipient recognizes an increase in net assets as a result of a transaction without performance obligations and there are no present obligations, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the transaction without performance obligations, when the liability is subsequently reduced, because a present obligation is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.

56. The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. For example, if a binding arrangement has present obligations, the transfer recipient will recognize revenue when (or as) those present obligations are satisfied.

Satisfying Present Obligations

57. A transfer recipient shall recognize revenue without performance obligations when (or as) the transfer recipient satisfies the present obligation. A present obligation is satisfied when (or as) the transfer recipient undertakes the specified activities and has no further enforceable duties or acts to perform.

58. For each present obligation identified, a transfer recipient shall determine at the inception of the binding arrangement whether it satisfies the present obligation over time or satisfies the present obligation at a point in time. If the transfer recipient does not satisfy a present obligation over time, the present obligation is satisfied at a point in time.

Measurement of Revenue

59. **An asset in a revenue transaction without performance obligations but with one or more present obligations shall initially be measured by the transfer recipient at its transaction price as at the date in which the criteria for asset recognition is satisfied (see paragraphs 60-79) .**

Determining the Transaction Price

60. A transfer recipient shall consider the terms of the transaction and its customary practices to determine the transaction price. The transaction price is the amount of inflows of future economic benefit or service potential which a transfer recipient expects to receive in a revenue transaction without performance obligations. The inflow in a transaction may include fixed amounts, variable amounts, or both.

61. Credit risk is not considered when determining the amount the transfer recipient expects to receive. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41.

62. The nature, timing and amount of the inflow affect the estimate of the transaction price. When determining the transaction price, a transfer recipient shall consider the effects of all of the following:

    (a) Variable inflows (see paragraphs 64-68 and 71);

    (b) Constraining estimates of variable inflows (see paragraphs 69-70);

    (c) The existence of a significant financing component in the arrangement (see paragraphs 72-77); and

    (d) Non-cash consideration (see paragraphs 78–79).

63. For the purpose of determining the transaction price, a transfer recipient shall assume that the inflow will be received in accordance with the terms of the transaction.

Variable Inflows

64. If the inflow in the transaction includes a variable amount, a transfer recipient shall estimate the amount of the inflow to which the transfer recipient expects to collect from the transfer provider (or taxpayer).

65. An amount of an inflow can vary because of discounts, rebates, refunds, credits, negotiated concessions, incentives, performance bonuses, penalties or other similar items. The inflow can also vary if a transfer recipient's entitlement to the inflow is contingent on the occurrence or non-occurrence of a future event.

66. The variability relating to the inflow may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the inflow is variable if either of the following circumstances exists:

    (a) The transfer provider (or taxpayer) has a valid expectation arising from a transfer recipient's customary practices, published policies or specific statements that the transfer recipient will accept an amount of inflow that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the transfer recipient will accept a reduced amount due to a concession. Depending on the jurisdiction, sector or transfer provider this offer may be referred to as a discount, rebate, refund or credit.

    (b) Other facts and circumstances indicate that the transfer recipient's intention, when entering into the arrangement with the transfer provider, is to offer a negotiated concession to the transfer provider.

67. A transfer recipient shall estimate an amount of variable inflows by using either of the following methods, depending on which method the transfer recipient expects to better predict the amount of inflows to which it expects to receive:

    (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible amounts. An expected value may be an appropriate estimate of the amount of variable inflows if a transfer recipient has a large number of transactions with similar characteristics; or

    (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible amounts (i.e., the single most likely outcome of the transaction). The most likely amount may be an appropriate estimate of the amount of variable inflows if the transaction has only two possible outcomes (for example, a transfer recipient either completes construction of infrastructure on schedule or not).

68. A transfer recipient shall apply one method consistently when estimating the effect of uncertainty on an amount of variable inflows which the transfer recipient expects to receive. In addition, a transfer recipient shall consider all the information (historical, current and forecast) that is reasonably available to it and shall identify a reasonable number of possible consideration amounts. The information that a transfer recipient uses to estimate the amount of variable inflows would typically be similar to the information that the transfer recipient's management uses to estimate the amount receivable.

Constraining Estimates of Variable Inflows

69. A transfer recipient shall measure the asset in a revenue transaction without performance obligations in accordance with paragraph 67 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable inflow is subsequently resolved.

70. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable inflow is subsequently resolved, a transfer recipient shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

    (a) The amount of inflow is highly susceptible to factors outside the transfer recipient's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the inflow when it is non-cash.

    (b) The uncertainty about the amount of inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

    (c) The transfer recipient's experience (or other evidence) with similar types of transactions is limited, or that experience (or other evidence) has limited predictive value.

    (d) The transaction has a large number and broad range of possible inflow amounts.

Reassessment of Variable Inflows

71. At the end of each reporting period, a transfer recipient shall update the estimated transaction price (including updating its assessment of whether an estimate of variable inflow is constrained) to

represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

The Existence of a Significant Financing Component in the Binding Arrangement

72. In determining the transaction price, a transfer recipient shall adjust the amount of inflow for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer provider or the transfer recipient with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the arrangement or implied by the terms agreed to by the parties to the arrangement or applicable laws and/or regulations.

73. The objective when adjusting the promised amount of inflows for a significant financing component is for a transfer recipient to recognize an asset at an amount that reflects the price that a transfer provider would have received if the transfer provider had transferred cash (i.e., the cash price). A transfer recipient shall consider all relevant facts and circumstances in assessing whether an arrangement contains a financing component and whether that financing component is significant to the arrangement, including both of the following:

    (a) The difference, if any, between the amount of promised inflows and the cash price of the transfer; and

    (b) The combined effect of both of the following:

        (i) The expected length of time between when the transfer recipient satisfies the present obligation (if any) and when the transfer provider transfers the inflows; and

        (ii) The prevailing interest rates in the relevant market.

74. Notwithstanding the assessment in paragraph 73, a transaction with a transfer provider (or taxpayer) would not have a significant financing component if any of the following factors exist:

    (a) The transfer provider (or taxpayer) made the transfer in advance and the timing of when the present obligation is satisfied is at the discretion of the transfer provider.

    (b) A substantial amount of the inflow promised by the transfer provider is variable and the amount or timing of that inflow varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the transfer provider or the transfer recipient.

    (c) The difference between the inflows and the cash price of the transfer (as described in paragraph 73) arises for reasons other than the provision of finance to either the transfer provider or the transfer recipient, and the difference between those amounts is proportional to the reason for the difference.

75. As a practical expedient, a transfer recipient need not adjust the inflows for the effects of a significant financing component if the transfer recipient expects, at the inception of the binding arrangement, that the period between when the transfer recipient satisfies the present obligation and when the transfer provider transfers the inflows will be one year or less.

76. To meet the objective in paragraph 73 when adjusting the inflows for a significant financing component, a transfer recipient shall use the discount rate that would be reflected in a separate

financing transaction between the transfer recipient and its transfer provider at the inception of the arrangement. That rate would reflect the credit characteristics of the party receiving financing in the arrangement, as well as any collateral or security provided by the transfer provider or the transfer recipient, including assets transferred in the arrangement. A transfer recipient may be able to determine that rate by identifying the rate that discounts the nominal amount of the inflows to the price that the transfer provider would transfer when (or as) the present obligation is satisfied (where applicable). After the inception of the arrangement, a transfer recipient shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the transfer provider's credit risk).

77. A transfer recipient shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements with transfer providers in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement with a transfer provider.

Non-Cash Transfers

78. **To determine the transaction price for assets in a form other than cash, a transfer recipient shall measure the non-cash inflow (or right to a non-cash inflow) at its fair value as at the time when the criteria for asset recognition is satisfied.**

79. The fair value of the non-cash inflow may vary because of the form of the inflow. If the fair value of the non-cash inflow promised by a transfer provider varies for reasons other than only the form of the inflow, a transfer recipient shall apply the requirements in paragraphs 69–70.

Allocating the Transaction Price to Present Obligations

80. **The objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the amount that depicts the amount of inflow to which the transfer recipient expects to be entitled in satisfying the present obligations.**

81. To meet the allocation objective, a transfer recipient shall allocate the transaction price to each present obligation identified in the arrangement. The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Liabilities on Initial Recognition

82. **The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date. For the purposes of this [draft] Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources.**

83. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

Subsequent Measurement of Receivables

84. After initial recognition, a transfer recipient shall subsequently measure a receivable:

(a) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or

(b) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.

85. 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. Changes in fair value are recognized in surplus or deficit.

Transfers without Present Obligations

Recognition of Revenue

86. **When a transfer recipient recognizes an inflow of resources as an asset for a transaction with no present obligation as set out in paragraphs 32-43, it recognizes revenue immediately.**

Measurement of Revenue

87. **Revenue from transactions without present obligations shall be measured at the amount of the increase in net assets recognized by the transfer recipient**.

88. When, as a result of a revenue transaction without a present obligation, a transfer recipient recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 59.

Taxes

89. **A transfer recipient shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.**

90. Resources arising from taxes satisfy the definition of an asset when the transfer recipient controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

91. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments (transfer expense per [draft] IPSAS [X] (ED 72)). The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income taxes for the state government and several city governments, it does not recognize revenue in respect of the

taxes collected–rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.

92. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

93. Taxes are a transaction without performance obligations because the taxpayer transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes.

The Taxable Event for Other Compulsory Contributions and Levies

94. Similar types of taxes are levied in many jurisdictions. The transfer recipient analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws and/or regulations, it is likely that the taxable event for:

    (a) Income tax is the earning of assessable income during the taxation period by the taxpayer;

    (b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

    (c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

    (d) Customs duty is the movement of dutiable goods or services across the customs boundary;

    (e) Death duty is the death of a person owning taxable property; and

    (f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

95. Similar types of other compulsory contributions and levies occur in many jurisdictions. The transfer recipient analyzes the law and/or regulation relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

    (a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

    (b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

    (c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes

96. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 89, resources for taxes and other compulsory contributions and levies received prior to the occurrence

of the taxable event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the transfer recipient's entitlement to the taxes or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied (see paragraph 95), notwithstanding that the transfer recipient has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event for other compulsory contributions and levies occurs. When the taxable event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

97. Similar to the measurement of assets for transfers with present obligations as required by paragraph 60, assets arising from taxation transactions are measured at their transaction price. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the transfer recipient, which is consistent with most likely amount in paragraph 67. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

98. Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

    (a) The tax law and/or regulation allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

    (b) Taxpayers failing to file returns on a timely basis;

    (c) Valuing non-monetary assets for tax assessment purposes;

    (d) Complexities in tax law and/or regulation requiring extended periods for assessing taxes due from certain taxpayers;

    (e) The potential that the financial and political costs of rigorously enforcing the tax laws and/or regulations (or laws and/or regulations relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;

    (f) The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and

    (g) A variety of circumstances particular to individual taxes and jurisdictions.

99. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

100. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event . However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

Measurement of Taxes with Collection Uncertainty

101. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur in accordance with paragraphs 69-70.

Expenses Paid Through the Tax System and Tax Expenditures

102. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

103. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer’s bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents’ health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual’s tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

104. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

105. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

106. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Application of Principles and Requirements to Specific Transfers

107. **Subject to paragraph 110, a transfer recipient shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**

Capital Transfers

108. **An inflow of resources from a capital transfer that arises from a binding arrangement and is recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

109. As a transfer recipient satisfies the present obligations as set out in the binding arrangement, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Services In-kind

110. **A transfer recipient may, but is not required to, recognize services in-kind as revenue and as an asset.**

111. Although recognition of services in-kind is not required by this [draft] Standard, transfer recipients are strongly encouraged to disclose services in-kind received particularly if they are integral to a transfer recipient's operations.

112. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind meet the definition of an asset because the transfer recipient controls a resource from which future economic benefits or service potential are expected to flow to the transfer recipient. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the transfer recipient will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

113. Public sector entities may be transfer recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

    (a) Technical assistance from other governments or international organizations;

    (b) Persons convicted of offenses may be required to perform community service for a public sector entity;

    (c) Public hospitals may receive the services of volunteers;

    (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and

    (e) Local governments may receive the services of volunteer fire fighters.

114. Some services in-kind do not meet the definition of an asset because the transfer recipient has insufficient control over the services provided. In other circumstances, the transfer recipient may

have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Transfer recipients may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 113, the transfer recipient may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the transfer recipient would acquire if the services in-kind were not available.

115. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this [draft] Standard does not require the recognition of services in-kind. Paragraph 133, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector transfer recipients, the services provided by volunteers are not material in amount, but may be material by nature.

116. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the transfer recipient. The extent to which a transfer recipient is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy a transfer recipient develops regarding the recognition of assets. For example, a transfer recipient that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

117. Pledges are unenforceable promises to transfer assets to the transfer recipient in the future. Pledges do not meet the definition of an asset, because the transfer recipient is unable to control the access of the transfer provider to the future economic benefits or service potential embodied in the item pledged. Transfer recipients do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the transfer recipient, it is recognized as a gift or donation, in accordance with paragraphs AG50–AG54. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

118. Where a transfer recipient receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The transfer recipient will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the event that makes the transfer arrangement binding occurs, and all present obligations under the agreement are fulfilled. When (or as) that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Concessionary Loans

119. Concessionary loans are loans received by a transfer recipient at below market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41. A transfer recipient considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue without performance obligations that should be accounted for in accordance with this [draft] Standard.

120. Where a transfer recipient determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is revenue without performance obligations, a transfer recipient recognizes the difference as revenue, except if a present obligation exists, for example, where specific requirements are imposed on the transferred assets by the transfer recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the transfer recipient satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

Presentation

121. When either party to a binding arrangement has performed, a transfer recipient shall present the binding arrangement in the statement of financial position as a transfer recipient's binding arrangement asset or a transfer recipient's binding arrangement liability, depending on the relationship between the transfer recipient's performance and the transfer provider's transfer. A transfer recipient shall present any unconditional rights to a transfer separately as a receivable.

122. If a transfer provider transfers cash or another asset, or a transfer recipient has a right to a transfer that is unconditional (i.e., a receivable), before the transfer recipient satisfies its present obligation, the transfer recipient shall present the binding arrangement as a transfer recipient's binding arrangement liability when the transfer is made or the transfer is due (whichever is earlier). A transfer recipient's binding arrangement liability is a transfer recipient's obligation to satisfy a present obligation for which the transfer recipient has received a transfer (or an amount of a transfer is due) from the transfer provider.

123. If a transfer recipient performs by satisfying a present obligation before the transfer is received or before the transfer is due, the transfer recipient shall present the binding arrangement as a transfer recipient's binding arrangement asset, excluding any amounts presented as a receivable. A transfer recipient's binding arrangement asset is a transfer recipient's right to a transfer to satisfy a present obligation. A transfer recipient shall assess a transfer recipient's binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a transfer recipient's binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 140(b)).

124. A receivable is a transfer recipient's right to a transfer that is unconditional. A right to a transfer is unconditional if only the passage of time is required before a transfer is due. For example, a transfer recipient would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. A transfer recipient shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

125. This [draft] Standard uses the terms ‘transfer recipient’s binding arrangement asset’ and ‘transfer recipient’s binding arrangement liability’ but does not prohibit a transfer recipient from using alternative descriptions in the statement of financial position for those items. If a transfer recipient uses an alternative description for a transfer recipient’s binding arrangement asset, the transfer recipient shall provide sufficient information for a user of the financial statements to distinguish between receivables and transfer recipient’s binding arrangement assets.

Disclosures

126. **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.**

127. **To achieve that objective, a transfer recipient shall disclose qualitative and quantitative information about all of the following:**

    (a) Its binding arrangements with present obligations (see paragraphs 140–150); and

    (b) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements (see paragraphs 151–154).

128. A transfer recipient shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A transfer recipient shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

129. A transfer recipient need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

130. In making the disclosures required by this [draft] Standard, a transfer recipient shall consider the requirements of paragraphs 45 to 47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

131. **A transfer recipient shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

    (a) **The amount of revenue from transactions without performance obligations recognized during the period by major classes showing separately:**

        (i) **Taxes, showing separately major classes of taxes;**

        (ii) **Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and**

        (iii) **Transfers, showing separately major classes of transfer revenue.**

    (b) **The amount of receivables recognized at reporting date in respect of revenue without performance obligations;**

    (c) **The amount of liabilities recognized at reporting date in respect of transferred assets subject to present obligations;**

(d) **The amount of liabilities recognized at reporting date in respect of concessionary loans that are subject to requirements on transferred assets;**

(e) **The existence and amounts of any advance receipts in respect of transactions without performance obligations; and**

(f) **The amount of any liabilities forgiven.**

132. **A transfer recipient shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue from transactions without performance obligations;**

(b) **For major classes of revenue from transactions without performance obligations, the basis on which the transaction price of inflowing resources was measured;**

(c) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the transfer recipient cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;**

(d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received; and**

(e) **Qualitative and quantitative information about services in-kind that have been recognized.**

133. Transfer recipients that do not recognize service in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the transfer recipient. The extent to which a transfer recipient is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

134. Present obligations impose limits on the use of assets, which impacts the operations of the transfer recipient. Disclosure of the amount of liabilities recognized in respect of present obligations assists users in making judgments about the ability of the transfer recipient to use its assets at its own discretion. Transfer recipients are encouraged to disaggregate by class the information required to be disclosed by paragraph 131(c).

135. Paragraph 131(e) requires transfer recipients to disclose the existence of advance receipts in respect of transactions without performance obligations. These liabilities carry the risk that the transfer recipient will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.

136. As noted in paragraph 98, in many cases a transfer recipient will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where a transfer recipient is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the transfer recipient makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.

137. In the public sector, a transfer recipient may impose a cost on another party by way of constitutional authority, legally sanctioned process, or other mechanism, where the face value of the revenue without a performance obligation transaction may not always be collectible. This is common in transactions to collect taxes or fines, where the transfer recipient is aware it may not collect face value. The transfer recipient shall disclose the following:

    (a) A description of the legislation or policy decision which compels the other party to satisfy the present obligation;

    (b) The amount of revenue from these transactions that was recognized after application of paragraphs 41–43 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit negotiated concession; and

    (c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 69, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit negotiated concession.

138. Paragraph 132(d) requires transfer recipients to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transfer provider, which exposes the transfer recipient to the risk that, in future periods, such sources of resources may change significantly.

139. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, transfer recipients may elect to recognize these services in-kind and measure them at their fair value. Paragraph 133 strongly encourages a transfer recipient to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the transfer recipient's objectives during the reporting period, and (b) the transfer recipient's dependence on such services for the achievement of its objectives in the future.

Binding Arrangements

140. A transfer recipient shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:

    (a) Revenue recognized from transfers with present obligations, which the transfer recipient shall disclose separately from its other sources of revenue; and

    (b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or transfer recipient's binding arrangement assets arising from a transfer recipient's transfers with present obligations, which the transfer recipient shall disclose separately from impairment losses from other arrangements.

Disaggregation of Revenue

141. A transfer recipient shall disaggregate revenue recognized from binding arrangements with present obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A transfer recipient shall apply the guidance in paragraphs AG55–AG57 when selecting the categories to use to disaggregate revenue.

142. In addition, a transfer recipient shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 141) and revenue information that is disclosed for each reportable segment, if the transfer recipient applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

143. A transfer recipient shall disclose all of the following:

    (a) The opening and closing balances of receivables, transfer recipient's binding arrangement assets and transfer recipient's binding arrangement liabilities from transfers with present obligations, if not otherwise separately presented or disclosed;

    (b) Revenue recognized in the reporting period that was included in the transfer recipient's binding arrangement liability balance at the beginning of the period; and

    (c) Revenue recognized in the reporting period from present obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

144. A transfer recipient shall explain how the timing of satisfaction of its present obligations (see paragraph 1(a)) relates to the typical timing of payment (see paragraph 1(b)) and the effect that those factors have on the transfer recipient's binding arrangement asset and the transfer recipient's binding arrangement liability balances. The explanation provided may use qualitative information.

145. A transfer recipient shall provide an explanation of the significant changes in the transfer recipient's binding arrangement asset and the transfer recipient's binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the transfer recipient's balances of transfer recipient's binding arrangement assets and transfer recipient's binding arrangement liabilities include any of the following:

    (a) Changes due to public sector combinations;

    (b) Cumulative catch-up adjustments to revenue that affect the corresponding transfer recipient's binding arrangement asset or transfer recipient's binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

    (c) Impairment of a transfer recipient's binding arrangement asset;

    (d) A change in the time frame for a right to consideration to become unconditional (i.e., for a transfer recipient's binding arrangement asset to be reclassified to a receivable); and

    (e) A change in the time frame for a present obligation to be satisfied (i.e., for the recognition of revenue arising from a transfer recipient's binding arrangement liability).

Present Obligations

146. A transfer recipient shall disclose information about its present obligations in transfers with present obligations, including a description of all of the following:

    (a) When the transfer recipient typically satisfies its present obligations;

    (b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is

variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 67–70);

(c) The nature of the present obligations the transfer recipient has promised to satisfy, highlighting any present obligations to arrange for another party to incur present obligations (i.e., if the transfer recipient is acting as an agent); and

(d) Obligations for returns, refunds and other similar obligations.

147. Where a transfer recipient is entitled to revenue from taxation or fines, the counterparty may not have the ability or intention to pay. In addition to the information in paragraph 146, a transfer recipient shall disclose the following:

(a) The amount of revenue from these transactions that was recognized after application of paragraphs 41-43 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 66; and

(b) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit price concession from the application of paragraph 66.

Transaction Price Allocated to the Remaining Present Obligations

148. A transfer recipient shall disclose the following information about its remaining present obligations:

(a) The aggregate amount of the transaction price allocated to the present obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the transfer recipient expects to recognize as revenue the amount disclosed in accordance with paragraph 148(a), which the transfer recipient shall disclose in either of the following ways:

(i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining present obligations; or

(ii) By using qualitative information.

149. As a practical expedient, a transfer recipient need not disclose the information in paragraph 148 for a present obligation if the present obligation is part of a binding arrangement that has an original expected duration of one year or less.

150. A transfer recipient shall explain qualitatively whether it is applying the practical expedient in paragraph 149 and whether any consideration from binding arrangements with present obligations is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 148. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 69–70).

Significant Judgments in the Application of this [draft] Standard

151. A transfer recipient shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue from transfers with present obligations. In particular, a transfer recipient shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The timing of satisfaction of present obligations (see paragraphs 152–153); and

(b) The transaction price and the amounts allocated to present obligations (see paragraph 154).

Determining the Timing of Satisfaction of Present Obligations

152. For present obligations that a transfer recipient satisfies over time, a transfer recipient shall disclose both of the following:

(a) The methods used to recognize revenue; and

(b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

153. For present obligations satisfied at a point in time, a transfer recipient shall disclose the significant judgments made in evaluating when a present obligation is satisfied.

Determining the Transaction Price and the Amounts Allocated to Present Obligations

154. A transfer recipient shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) Assessing whether an estimate of variable consideration is constrained;

(c) Allocating the transaction price, including allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and

(d) Measuring obligations for returns, refunds and other similar obligations.

Effective Date and Transition

Effective Date

155. **A transfer recipient shall apply this Standard for annual financial statements covering periods beginning on or after [DD/MM/YYYY]. Earlier application is encouraged. If a transfer recipient applies this Standard for periods beginning before [DD/MM/YYYY], it shall disclose that fact and apply [draft] IPSAS [X] ED 70 and [draft] IPSAS [X] ED 72 at the same time.**

156. When a transfer recipient adopts the accrual basis IPSASs as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the transfer recipient's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Transition

157. For the purposes of the transition requirements in paragraphs 158–163:

(a) The date of initial application is the start of the reporting period in which a transfer recipient first applies this [draft] Standard; and

(b) A completed binding arrangement is a binding arrangement for which the transfer recipient has fulfilled all the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

158. A transfer recipient shall apply this [draft] Standard using one of the following two methods:

 (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 160; or

 (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 162–163.

159. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, a transfer recipient needs only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the transfer recipient applies this [draft] Standard retrospectively in accordance with paragraph 158(a). A transfer recipient may also present this information for the current period or for earlier comparative periods, but is not required to do so.

160. A transfer recipient may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 158(a):

 (a) For completed binding arrangements, a transfer recipient need not restate binding arrangements that:

  (i) Begin and end within the same annual reporting period; or

  (ii) Are completed binding arrangements at the beginning of the earliest period presented.

 (b) For completed binding arrangements that have variable consideration, a transfer recipient may use the transaction price at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

 (c) For all reporting periods presented before the date of initial application, a transfer recipient needs not disclose the amount of the transaction price allocated to the remaining present obligations and an explanation of when the transfer recipient expects to recognize that amount as revenue

161. For any of the practical expedients in paragraph 160 that a transfer recipient uses, the transfer recipient shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the transfer recipient shall disclose all of the following information:

 (a) The expedients that have been used; and

 (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

162. If a transfer recipient elects to apply this [draft] Standard retrospectively in accordance with paragraph 158(b), the transfer recipient shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, a transfer recipient may elect to apply this [draft] Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for a transfer recipient with a December 31 year-end).

163. For reporting periods that include the date of initial application, a transfer recipient shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 158(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 23; and

(b) An explanation of the reasons for significant changes identified.

Withdrawal of IPSAS 23 (2006)

164. This [draft] Standard supersedes IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* issued in 2006. IPSAS 23 (2006) remains applicable until [draft] IPSAS [X] (ED 71) is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 71)

AG1. This Application Guidance is organized into the following categories:

(a) Objective (paragraph AG2);

(b) Scope (paragraphs AG3−AG9);

(c) Definitions (paragraphs AG10–AG27);

(d) Revenue without Performance Obligations subject to Appropriations (paragraphs AG28–AG32);

(e) Determining the Transaction Price (paragraphs AG33)

(f) Other Transfers (paragraphs AG34-AG39)

(g) Measurement of Transferred Assets (paragraph AG40);

(h) Debt Forgiveness and Assumptions of Liabilities (paragraph AG41-AG44);

(i) Fines (paragraphs AG45-AG46);

(j) Bequests (paragraphs AG47-AG49);

(k) Gifts, Donations, including Goods In-kind (paragraphs AG50-AG54);

(l) Disclosure (paragraphs AG55-AG57); and

(m) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG58-AG60).

Objective (see paragraphs 1-2)

AG2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that a transfer recipient shall recognize an asset and associated revenue from transactions without performance obligations as follows:

(a) For transfers where the transfer recipient is required, by a binding arrangement, (see paragraphs AG10-AG15), to satisfy a present obligation, revenue is recognized when (or as) the present obligation is satisfied.

(b) For transfers that do not arise from a binding arrangement, revenue is recognized when the crtieria for the recognition of an asset are met.

Scope (see paragraphs 3–9)

AG3. The scope of this [draft] Standard is limited to revenue transactions without performance obligations.

AG4. Transactions without performance obligations may or may not arise from a binding arrangement. This [draft] Standard applies to both types of transactions. A binding arrangement without performance obligations may contain one or more present obligations, which could result in the recognition of a liability.

AG5. A performance obligation is defined at paragraph 7 of draft IPSAS [X] (ED 70), as a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:

(a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiaries.

AG6. The key distinction between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation in this [draft] Standard is that a performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement.

AG7. In practice, a transfer recipient will consider whether it maintains control of the resources provided by the transfer provider. If the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are required to be transferred to the transfer provider, or to a third-party beneficiary, the transaction is accounted for under the requirements of [draft] IPSAS [X] (ED 70). Where there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary, or the transfer recipient directs the use of the economic benefit or service potential of the good or service, the requirements of this [draft] Standard apply.

AG8. For example, where a government entity (the transfer recipient) receives cash or another asset from an international financial institution (transfer provider) to provide training services on the transfer recipient's own accounting practices, the arrangement is accounted for within the scope of this [draft] Standard when the transfer recipient is able to determine who will receive the training services. Often arrangements of this nature that will be within the scope of the [draft] Standard will specify that the training services are provided internally to the transfer recipient. This is because the transfer recipient receives the benefit of the good or service. If the transfer recipient can decide to provide the training services to parties outside the entity (such as the international financial institution), the transfer recipient also receives the benefit of the good or service but directs the use of the benefit to other parties. Such arrangements are within the scope of the [draft] Standard. However, if the international financial institution requires the training services be delivered to the staff of the international financial institution, the arrangement would be within the scope of [draft] IPSAS [X] ED 70 as the benefit from the good or service is required to be transferred to the transfer provider.

AG9. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding. Therefore this [draft] Standard addresses accounting for:

(a) Taxes;

(b) Capital transfers; and

(c) Other transfers, including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received.

Definitions (see paragraphs 10–30)

Binding Arrangement

AG10. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, as an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. To be considered a binding arrangement for the purposes this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or

equivalent means, as discussed in paragraphs AG16-AG23. Some transactions within the scope of this [draft] Standard may be enforceable, but only create rights or obligations for one party. These transactions do not satisfy the requirements of a binding arrangement because of the lack of two-way enforceability.

AG11. In the public sector, an arrangement is enforceable when the transfer recipient and the transfer provider are able to enforce the rights and obligations through legal or equivalent means.

AG12. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means).

AG13. For an arrangement to be enforceable through 'equivalent means', a mechanism outside the legal systems is required to establish the right of the transfer provider to obligate the transfer recipient to complete the agreed present obligation or be subject to remedies for non-performance. Similarly, a mechanism outside the legal systems is required to establish the right of the transfer recipient to obligate the transfer provider to pay the agreed consideration.

AG14. A transfer recipient considers the substance rather than the legal form of an arrangement in determining whether it is enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both the transfer recipient and the transfer provider; and

(b) Remedies for non-performance by either party which can be enforced by the other party through legal or equivalent means.

AG15. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

Enforceability

AG16. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the transfer recipient receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the transfer recipient providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the transfer recipient.

AG17. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws and/or regulations of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence.

AG18. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the

full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to complete a present obligation.

AG19. Sovereign rights is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of specified activities or to use funding on eligible expenses by a transfer recipient, this may result in a valid enforcement mechanism.

AG20. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to complete specified activities may be enforceable. Similarly, a directive given by a minister or government department to a transfer provider controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

AG21. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other entity (the transfer provider). In general, the transfer provider's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the transfer provider to provide such funding. However, if the transfer recipient was presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the funding if other binding arrangements are breached, then the potential reduction in current funding could be considered a valid enforcement mechanism.

AG22. When determining if a reduction of future funding would be an enforcement mechanism, the transfer recipient shall apply judgment based on the facts and circumstances. Key factors that may indicate the transfer provider would reduce future funding in the event of a breach of promises made in a binding arrangement are the transfer provider's ability to reduce future finding and its past history of doing so.

AG23. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient. A transfer recipient would need to consider whether such a public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Capital Transfer

AG24. This [draft] Standard defines a capital transfer as a transaction, that arises from a binding arrangement, where a transfer provider provides cash or another asset with a specification that

the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer does not impose a performance obligation (as defined by [draft] IPSAS [X] (ED 70)) on the transfer recipient because there is no requirement to transfer the non-financial asset acquired under the binding arrangement to either the transfer provider or a third-party beneficiary and therefore it does not meet the requirements of a performance obligation.

Eligible Expenditure

AG25. This [draft] Standard defines eligible expenditure as an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. A transfer, that arises from a binding arrangement may be provided with the requirement that the transfer recipient use the resources in furthering the transfer recipient's objectives, but the requirement does not meet the requirements to be classified as a performance obligation as defined in [draft] IPSAS [X] (ED 70) or as a specified activity. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. Revenue would be recognized as these eligible expenditures are incurred.

AG26. The transfer provider needs to be able to confirm that all expenditure incurred was eligible and therefore the transfer recipient needs to keep appropriate documentation to show that the expenditure was incurred by the transfer recipient and for the purpose intended.

Specified Activity

AG27. This [draft] Standard defines a specified activity as an action specified in a binding arrangement that must be completed by a transfer recipient. A specified activity differs from a performance obligation because there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary. For example, a transfer provider provides funding to a government science agency (transfer recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the transfer provider requires the government science agency to report back at each stage. Each of these stages constitutes an specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action.

Revenue without Performance Obligations Subject to Appropriations (see paragraphs 36-37)

AG28. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transaction without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

AG29. In accordance with paragraphs 36-37, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer

recipient considers substance over form in determining whether the transfer recipient has control of those resources prior to the appropriation being authorized.

AG30. In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a transfer provider;

(b) The exercise of that authority has occurred. In essence, a decision has been made by the transfer provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the authorization of an appropriation.

AG31. The enabling authority together with the exercise of that authority may be sufficient for a transfer recipient to conclude that it has an enforceable right to resources prior to the authorization of the appropriation. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer recipient recognizes an asset prior to the appropriation being authorized.

AG32. In other cases, the authorization of the appropriation may need to be considered in establishing when a transfer provider has lost its discretion to avoid proceeding. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer recipient shall not recognize an asset prior to the appropriation being authorized.

Determining the Transaction Price (paragraphs 60-71)

AG33. A transfer recipient shall apply the requirements in paragraphs 60-71 (including the requirements for constraining measurement in paragraphs 69-70) to determine the amount of revenue to which the transfer recipient expects to be entitled. For any revenue for which a transfer recipient does not believe it is highly probable that a significant reversal in the amount will not occur, the transfer recipient shall not recognize revenue. Subsequently, at the end of each reporting period, the transfer recipient shall update its assessment of amounts for which it expects to be entitled in order to determine whether the threshold for measurement has been achieved.

Other Transfers (paragraphs 107-120)

AG34. Transfers include debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without requiring a transfer of distinct goods or services to the transfer provider or a third-party beneficiary in return, and are not taxes as defined in this [draft] Standard.

AG35. Transfers satisfy the definition of an asset when the transfer recipient controls the resources as a result of a past event, and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their transaction price can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the transfer recipient decreases the carrying amount of the liability.

AG36. A transfer recipient obtains control of transferred resources either when the resources have been transferred to the transfer recipient, or the transfer recipient has an enforceable claim against the transferor provider. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one transfer recipient promises to transfer resources, but fails to do so. Consequently, only when (a) a claim is enforceable, and (b) the transfer recipient assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the transfer recipient cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

AG37. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

AG38. Transfers satisfy the definition of a transaction without performance obligations because the transfer provider provides resources to the transfer recipient without requiring the transfer recipient to transfer distinct goods or services to the transfer provider or a third-party beneficiary. If an agreement requires that the transfer recipient transfer distinct goods or services to the transfer provider or a third-party beneficiary, the agreement does not give rise to a transaction without a performance obligation, but a binding arrangement with performance obligations that should be accounted for under [draft] IPSAS [X] (ED 70).

AG39. A transfer recipient analyzes all requirements contained in an agreement to determine if it incurs a present obligation when it accepts transferred resources.

Measurement of Transferred Assets (see paragraph 59)

AG40. As required by paragraph 59, transferred assets are measured at their transaction price as at the date of recognition. Inventories, property, plant, equipment, or investment property acquired through transactions without performance obligations are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of paragraph 78. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at their transaction price as at the date of acquisition in accordance with paragraph 60 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

AG41. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

AG42. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG43. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 7–8.

AG44. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG45. Fines are economic benefits or service potential received or receivable by a public sector transfer recipient, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG46. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 33. As noted in paragraph 12, where a transfer recipient collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the transfer recipient.

Bequests

AG47. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the transfer recipient has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws and/or regulations of the jurisdiction.

AG48. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the transfer recipient, and the transaction price of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the transfer recipient receiving any assets. The transfer recipient will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the transfer recipient.

AG49. The transaction price of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG52. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction price of the asset bequeathed to the transfer recipient, and this amount may be available to the transfer recipient. Bequests are measured at the transaction price of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG50. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from

requirements. The transfer provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 110-116.

AG51. Goods in-kind are tangible assets transferred to a transfer recipient in a transaction without performance obligations, but may be subject to specified activities. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG52. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the transfer recipient and the transaction price of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the transfer recipient.

AG53. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received with no binding arrangement, revenue is recognized immediately. If specified activities are required under the binding arrangement, a liability is recognized, which is reduced and revenue recognized, as the specified activities are completed.

AG54. On initial recognition, gifts and donations including goods in-kind are measured at their transaction price, being its fair value, as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the transaction price will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Disclosure (see paragraphs 126-154)

Disclosure of Disaggregated Revenue

AG55. Paragraph 141 requires a transfer recipient to disaggregate revenue from binding arrangements with present obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which a transfer recipient's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the transfer recipient's binding arrangements with present obligations. Some entities may need to use more than one type of category to meet the objective in paragraph 141 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG56. When selecting the type of category (or categories) to use to disaggregate revenue, a transfer recipient shall consider how information about the transfer recipient's revenue has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraph AG56(a) and (b) and that is used by the transfer recipient or users of the transfer recipient's financial statements to evaluate the transfer recipient's financial performance or make resource allocation decisions.

AG57. Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) Type of present obligations (for example, incurring eligible expenditure or undertaking specified activities);

(b) Geographical region (for example, country or region);

(c) Market or type of transfer providers (for example, government and non-government transfer provider);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements); and

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements).

Breach of the Terms and Conditions of a Binding Arrangement

AG58. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

(a) Whether the arrangement gave rise to a present obligation or not;

(b) When the breach occurred—i.e., whether it was in the period in which the breach is discovered or in a prior period; and

(c) The reason for the breach.

AG59. If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the transfer recipient will recognize a liability for the amount to be refunded to the transfer provider and derecognize any revenue recognized during the reporting period.

AG60. Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a:

(a) Change in accounting estimate as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors.* Accounting estimates are used where items in financial statements cannot be measured with precision and judgement may be required in measuring those items as described in IPSAS 3;

(b) Prior period error which has arisen from a failure to use, or from the misuse of, faithfully representative information that was available when the financial statements for the period were authorized for issue or could reasonably be expected to have been obtained; or

(c) Separate past event because the amount recognized in prior period financial statements is not an estimated amount and was based on the use of faithfully representative information available at the date of the approval of the financial statements for the relevant reporting period.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88, 94 and 135 are amended and paragraph 153O is added. New text is underlined, and deleted text is struck through.

…

Structure and Content

…

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

    (a) **Property, plant, and equipment;**

    (b) **Investment property;**

    (c) **Intangible assets;**

    (d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**

    (e) **Investments accounted for using the equity method;**

    (f) **Inventories;**

    (g) **Recoverables from ~~non-exchange~~ revenue transactions without performance obligations ~~(taxes and transfers)~~**

    …

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

94. The detail provided in subclassifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example.

    (a) Items of property, plant, and equipment are disaggregated into classes in accordance with IPSAS 17;

    (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions without performance obligations, receivables from related parties, prepayment, and other amounts;

    …

Disclosure of Accounting Policies

135. Each entity considers the nature of its operations and the policies that the user of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of ~~non-exchange~~ revenue without performance obligations. When an entity has significant

foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

…

Effective Date

…

153P. Paragraphs 88, 94 and 135 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month], [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 12, Inventories

Paragraphs 16 and 31 are amended and paragraph 51F is added. New text is underlined, and deleted text is struck through.

…

Measurement of Inventories

…

16. **Where inventories are acquired through a ~~non-exchange~~ revenue transaction without performance obligations, their cost shall be measured at their fair value as at the date of acquisition.**

…

Techniques for the Measurement of Cost

…

31. Inventories may be transferred to the entity by means of a ~~non-exchange~~ revenue transaction without performance obligations. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired.

…

Effective Date

…

51F. Paragraphs 16 and 31 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Comparison with IAS 2

IPSAS 12, *Inventories* is drawn primarily from IAS 2, *Inventories* (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

…

- IPSAS 12 requires that where inventories are acquired through a ~~non-exchange~~ revenue transaction without performance obligations, their cost is their fair value as at the date of acquisition.

…

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 27 and 32 are amended and paragraph 101H is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an investment property is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured at its fair value as at the date of acquisition.**

…

32. An investment property may be acquired through a ~~non-exchange~~ revenue transaction without performance obligations. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

…

Effective Date

…

101H. Paragraphs 27 and 32 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Comparison with IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRSs. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired through a revenue transaction without performance obligations~~for no cost or for a nominal cost~~, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.

…

Amendments to IPSAS 17, Property, Plant, and Equipment

Paragraphs 27 and 28 are amended and paragraph 107P is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an asset is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured as its fair value as at the date of acquisition.**

28. An item of property, plant and equipment may be acquired through a revenue ~~non-exchange~~ transaction without performance obligations. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads, and paths in the development. An asset may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

…

Effective Date

…

107P. Paragraphs 27 and 28 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Comparison with IAS 16

IPSAS 17 is drawn primarily from IAS 16 (2003), *Property, Plant and Equipment* and includes amendments made to IAS 16 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* to public sector entities; therefore, IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issue of IFRS 5. The main differences between IPSAS 17 and IAS 16 (2003) are as follows:

…

- IAS 16 requires items of property, plant, and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired through a revenue transaction without performance obligations~~at no cost, or for a nominal cost~~, its cost is its fair value as at the date it is acquired. IAS 16 requires, where an enterprise adopts the revaluation model and carries items of property, plant, and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.

…

…

Amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

Paragraph 107 is amended and paragraph 111J is added. New text is underlined, and deleted text is struck through.

…

Disclosure

…

107. The disclosure requirement in paragraph 105 encompass contingent assets from both ~~exchange and non-exchange~~ transactions with performance obligations and those without performance obligations. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are ~~to be dealt with as a part of a separate project on non-exchange~~ addressed in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Effective Date

…

111J. Paragraph 107 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning

before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 27, *Agriculture*

Paragraphs 17 and 48, are amended and paragraph 56G is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

17. **Where an entity acquires a biological asset through a ~~non-exchange~~ revenue transaction without performance obligations, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**

…

Disclosure

…

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

    (a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**

    (b) **Increases due to purchases;**

    (c) **Increases due to assets acquired through a ~~non-exchange~~ revenue transaction without performance obligations;**

    (d) …

…

Effective Date

…

56G. Paragraphs 17 and 48 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

…

Government Grants

BC5. IAS 41 specifies requirements and guidance for accounting for government grants related to biological assets that differ from the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 27 does not include requirements and guidance for government grants, because at the time this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* ~~provides~~ provided requirements and guidance related to government grants in non-exchange transactions. The IPSASB did not consider that accounting for government grants related to biological assets should vary from the requirements of IPSAS 23.

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

BC6. An entity may acquire a biological asset or agricultural produce in a non-exchange transaction. In accordance with this Standard, these assets would be measured at fair value less costs to sell. At the time this Standard was developed, IPSAS 23 prescribed that assets acquired through a non-exchange transaction should be measured initially at fair value as at the date of acquisition. As a result of the different measurement requirements, the IPSASB considered the appropriate measurement basis for biological assets acquired in a non-exchange transaction.

BC7. When~~The~~ the IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction~~. In particular~~, it considered, in particular, the following three approaches:

(a) Approach 1: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using IPSAS 23 (i.e., exclude all biological assets and agricultural produce acquired in a non-exchange transaction from the measurement requirements of this Standard);

(b) Approach 2: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using this Standard (i.e., exclude all biological assets and agricultural produce from the measurement requirements of IPSAS 23); and

(c) Approach 3: Use both IPSAS 23 and this Standard to measure biological assets and agricultural produce acquired in a non-exchange transaction.

BC8. The IPSASB rejected approach 1 because biological assets and agricultural produce acquired in exchange and non-exchange transactions would be measured differently. The IPSASB agreed that there is no reason to measure biological assets and agricultural produce acquired in a non-exchange transaction differently from those acquired in an exchange transaction because the assets are the same.

BC9. In analyzing approach 3, the IPSASB considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. At the time this Standard was developed IPSAS 23.13 ~~states~~ stated that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." This ~~implies~~ implied that for other assets, an entity ~~considers~~ considered the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity ~~considers~~ considered the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

…Comparison with IAS 41

IPSAS 27, *Agriculture* is drawn primarily from IAS 41, *Agriculture* (2001), as amended up to December 31, 2008. The main differences between IPSAS 27 and IAS 41 are as follows:

- The definition of “agricultural activity” includes transactions for the distribution of biological assets at no charge or for a nominal charge. IAS 41 does not deal with such transactions.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard. IAS 41 does not include such a clarification.
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* provides requirements and guidance related to government grants in revenue ~~non-exchange~~ transactions without performance obligations.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.
- This Standard contains an additional disclosure requirement for biological assets for which the entity’s use or capacity to sell are subject to restrictions.
- This Standard contains a requirement to distinguish between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. IAS 41 encourages, but does not require, entities to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets, or between mature and immature biological assets, as appropriate.
- This Standard contains transitional provisions on the first-time adoption of accrual accounting. IAS 41 does not include such transitional provisions.
- IPSAS 27 uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms future economic benefits and service potential, surplus or deficit, and statement of financial performance in IPSAS 27. The equivalent terms in IAS 41 are future economic benefits, profit or loss, and statement of comprehensive income.

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraphs AG21, and AG22, are amended and paragraph 60G is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

60G. Paragraphs AG21 and AG22 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Scope

…

AG21. In the public sector, it is possible that contractual and non-contractual arrangements have~~are~~ ~~non-exchange~~ no performance obligations ~~in nature~~. Assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are accounted for in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations.* If ~~non-exchange~~ revenue transactions without performance obligations are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG70-AG71 of this Standard. An entity uses the guidance in this Standard and ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) in assessing whether a ~~non-exchange~~ revenue transaction without performance obligations gives rise to a liability or an equity instrument (contribution from owners).

AG22 An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual ~~non-exchange~~ revenue transaction without performance obligations is in substance a liability or an equity instrument.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 28

…

Definitions

…

Contractual Non-Exchange Revenue Transactions

BC17. When this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising out of non-exchange revenue transactions. The IPSASB considered the interaction between this Standard and IPSAS 23.

BC18. In considering whether assets and liabilities that arise from non-exchange revenue transactions ~~are~~ were financial assets and financial liabilities, the IPSASB identified that the following basic requirements should be fulfilled:

- The arrangement is contractual in nature; and
- The arrangement gives rise to a contractual right or obligation to receive or deliver cash or another financial asset, or exchange financial assets under favorable or unfavorable conditions.

BC19. The IPSASB concluded that assets arising from non-exchange revenue transactions could meet these requirements. In particular, it noted that the nature of arrangements with donors may be contractual in nature, and may be settled by transferring cash or another financial asset from the donor to the recipient. In these instances, assets arising from non-exchange revenue transactions ~~are~~ were financial assets.

BC20. Therefore, when this Standard was developed the ~~The~~ IPSASB agreed that, for financial assets arising from non-exchange transactions, an entity should apply the requirements of IPSAS 23 in conjunction with IPSAS 28. In particular, an entity should consider~~s~~ the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction ~~results~~ resulted in a liability or a transaction that evidences a residual interest in the net assets of the entity, i.e., an equity instrument.

BC21. The IPSASB considered whether liabilities arising from non-exchange revenue transactions ~~are~~ were financial liabilities. Liabilities ~~are~~ were recognized in IPSAS 23 when an entity ~~receives~~ received an inflow of resources that ~~is~~ was subject to specific conditions. Conditions on a transfer of resources ~~are~~ imposed on an entity by a transferor ~~and require~~ required that the resources ~~are~~ were used in a certain way, often to provide goods and services to third parties, or ~~are~~ were returned to the transferor. This ~~gives~~ gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity ~~recognizes~~ recognized the resources as an asset and, where they are subject to conditions, ~~recognizes~~ recognized a corresponding liability.

BC22. While developing this Standard, ~~T~~the IPSASB considered whether the liability initially recognized is in the nature of a financial liability or another liability, e.g., a provision. The IPSASB agreed that, at the time the asset is recognized, the liability is not usually a financial liability as the entity's obligation is to fulfil the terms and conditions of the arrangement by utilizing the resources as intended, usually by providing goods and services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil the terms of the arrangement and is required to return the resources to the transferor, an entity would assess at this stage whether the liability is a financial liability considering the requirements set out in paragraph BC18 and the definitions of a financial instrument and a financial liability. In rare circumstances, a financial liability may arise from conditions imposed on a transfer of resources as part of a non-exchange revenue transaction. The IPSASB may consider such a scenario as part of a future project.

BC23. The IPSASB also noted that other liabilities may arise from non-exchange revenue transactions after initial recognition. For example, an entity may receive resources under an arrangement that ~~requires~~ required the resources to be returned only after the occurrence or non-occurrence of a future event. An entity assesses whether other liabilities arising from non-exchange revenue transactions are financial liabilities by considering whether the requirements in paragraph BC18 have been fulfilled and the definitions of a financial instrument and a financial liability have been met.

…

Comparison with IAS 32

IPSAS 28, *Financial Instruments: Presentation* is drawn primarily from IAS 32, *Financial Instruments: Presentation* (issued originally in 2003, including amendments up to December 31, 2008). The main differences between IPSAS 28 and IAS 32 are as follows:

- IAS 32 allows entities to treat financial guarantee contracts as insurance contracts where entities have previously asserted that such contracts are insurance contracts. IPSAS 28 allows a similar election, except that entities need not have explicitly asserted that financial guarantees are insurance contracts.
- In certain instances, IPSAS 28 uses different terminology from IAS 32. The most significant examples are the use of the terms “statement of financial performance” and “net assets/equity.” The equivalent terms in IAS 32 are “statement of comprehensive income or separate income statement (if presented)” and “equity.”
- IPSAS 28 does not distinguish between “revenue” and “income.” IAS 32 distinguishes between “revenue” and “income,” with “income” having a broader meaning than the term “revenue.”
- IPSAS 28 contains additional Application Guidance dealing with the identification of arrangements that are, in substance, contractual.
- IPSAS 28 contains additional Application Guidance on when assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are financial assets or financial liabilities.
- Principles from IFRIC 2, *Members’ Shares in Co-operative Entities and Similar Instruments* have been included as an Appendix in IPSAS 28.
- The transitional provisions in IPSAS 28 differ from those in IAS 32. This is because IPSAS 28 provides transitional provisions for those entities applying this Standard for the first time or those applying accrual accounting for the first time.

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, 42N, are amended and paragraph 52G is added. New text is underlined and deleted text is struck through.

…

Scope

…

5A The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~[draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations* and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

…

Nature and Extent of Risks Arising from Financial Instruments

…

Quantitative Disclosures

…

Credit Risk

Scope and Objectives

42A. An entity shall apply the disclosure requirements in paragraphs 42F–42N to financial instruments to which the impairment requirements in IPSAS 41 are applied. However:

(a) For receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of IPSAS 41, if those financial assets are modified while more than 30 days past due; and

(b) Paragraph 42K(b) does not apply to lease receivables.

…

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

42H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) The loss allowance measured at an amount equal to 12-month expected credit losses;

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71~~)~~ or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

…

Credit Risk Exposure

42M. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) For which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS 9~~ [draft] IPSAS [X] (ED 70) or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) That are purchased or originated credit-impaired financial assets.

42N. For receivables that result from ~~exchange~~ revenue transactions with performance obligations that are within the scope of ~~IPSAS~~ 9 [draft] IPSAS [X] (ED 70) or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables to which an entity applies paragraph 87 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

…

Effective Date

…

52G. Paragraphs 5A, 42A, 42H, 42M and 42N were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 31, *Intangible Assets*

New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

31. An intangible asset shall be measured initially at cost in accordance with paragraph 32-43. Where an intangible asset is acquired through ~~a non-exchange transaction~~ a revenue transaction without performance obligations, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

Background

…

BC5. When this Standard was developed, IAS 38 ~~contains~~ contained requirements on exchanges of assets when the exchange transaction lacks commercial substance. The IPSASB considered whether this guidance ~~is~~ was necessary and concluded that it was not necessary because this issue ~~is~~ was addressed in IPSAS 23.

…

Intangible Assets Acquired through a Non-Exchange Transaction

BC8. At the time this Standard was developed IPSAS 23 ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising from non-exchange revenue transactions. This Standard addresses the circumstance where an intangible asset is acquired through a non-exchange transaction. The IPSASB agreed that, for intangible assets arising from such transactions, an entity applies the requirements of IPSAS 23 in conjunction with this Standard for initial measurement of the intangible asset and, accordingly, considers directly attributable costs specified in this Standard.

…

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

…

- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through a revenue ~~non-exchange~~ transaction without performance obligations. IPSAS 31 states that where an intangible asset is acquired through a revenue ~~non-exchange~~ transaction without performance obligations, the cost is its fair value as at the date it is acquired.

…

Amendments to IPSAS 32, *Service Concession Arrangements: Grantor*

Paragraph AG64 is amended and paragraph 36E is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

36E. Paragraph AG64 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Application Guidance

…

Other Revenues (see paragraph 30)

…

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

….

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32

…

Recognition of a Liability

…

BC21. The IPSASB agreed that clarification of this issue was required. When this Standard was developed, ~~The~~the IPSASB noted that using the term "performance obligation" could give rise to confusion because it ~~is~~ was used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 32, 41, 42 and its related heading, 43, 71 and its related heading are amended and paragraph 154D is added. Amended text is underlined and deleted text is struck through.

…

Fair Presentation and Compliance with IPSASs

…

32. For example, a first-time adopter adopts the three year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of ~~non-exchange~~ revenue without performance obligations. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSASs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSASs at the date of adoption of accrual basis IPSASs or during the period of transition.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during Period of Transition

…

41. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of IPSAS 9, *Revenue from Exchange Transactions*, or other receivables settled in cash or another financial asset in terms of ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.**

…

Recognition and/or Measurement of ~~Non-Exchange~~ Revenue without Performance Obligations

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange~~ revenue without performance obligations for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of revenue from ~~non-exchange~~ transactions without performance obligations on a class-by-class basis.**

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue from ~~non-exchange~~ transactions without performance obligations in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue from ~~non-exchange~~ transactions without performance obligations that do not comply with the provisions of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) incrementally to different classes of revenue from ~~non-exchange~~ transactions without performance obligations. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of transfers in accordance with

~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for reorganizing and measuring income tax revenue.

…

Using Deemed Cost to Measure Assets Acquired Through a ~~Non-Exchange~~ Revenue Transaction without Performance Obligations

71. **A first-time adopter may elect to measure an asset acquired through a ~~non-exchange~~ revenue transaction without performance obligations at its fair value when reliable cost information about the asset is not available, and use that fair value as its deemed cost.**

…

Effective Date

…

154D Paragraphs 32, 41, 42 and its related heading, 43, 71 and its related heading were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

….

Basis for Conclusions

*This Basis for Conclusions accompanie*s, but is not part of, IPSAS 33.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

…

Transitional Exemptions Relating to the Recognition and Measurement of Non-Exchange Revenue

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

BC64. When this Standard was developed, ~~The~~the existing transitional provisions in IPSAS 23 ~~allow~~ allowed a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also ~~allows~~ allowed a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also ~~requires~~ required that changes in accounting policies should only be made to better conform to IPSAS 23.

BC65. The IPSASB concluded that it ~~will~~ would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the

accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSASs, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSASs. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

…

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs.

		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3-year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
…	…	…	…	…	…	…	…	…
~~IPSAS 23, *Revenue from Non-Exchange Transactions*~~ [Draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*			√ All ~~non-exchange~~ revenue transactions without performance obligations not recognized under previous basis of accounting	√ All ~~non-exchange~~ revenue transactions without performance obligations recognized under previous basis of accounting	√ To extent that 3 year relief period was adopted for assets and/or liabilities			

…

Amendments to IPSAS 35, *Consolidated Financial Statements*

Paragraph AG13 is amended and paragraph 79D is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

79D Paragraph AG13 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Application Guidance

…

Assessing Control

…

Power

…

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through ~~non-exchange~~ transactions without performance obligations;

(d) …

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 5 is amended and paragraph 51D is added. New text is underlined and deleted text is struck through.

…

Scope

…

5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are ~~non-exchange~~ revenue without performance obligations in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

…

Effective Date

…

51J Paragraph 5 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 34, 79, AG58, and AG86, are amended, and paragraph 126A is added. New text is underlined and deleted text is struck through.

…

Accounting for Amalgamations

…

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

…

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation

…

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

The Acquisition Method of Accounting

…

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

…

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

…

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Effective Date

…

126A Paragraphs 34, 79, AG58, and AG86 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Accounting for Amalgamation

…

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

…

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Accounting for Acquisition

…

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

…

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Illustrative Examples

…

Accounting for Amalgamation

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

…

IE164. The ~~grant~~ transfer was subject to a ~~condition~~ present obligation that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its ~~performance~~ present obligation, in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the ~~grant~~ transfer, but accounted for the full CU700 as an expense.

…

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

…

IE176. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

…

IE250. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a ~~grant~~ transfer of CU800 to be used in the provision of an agreed number of training courses to the employees of TE.

IE264. The ~~grant~~ transfer was subject to a ~~condition~~ present obligation~~s~~ that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its ~~performance~~ present obligation, in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the ~~grant~~ transfer, but accounted for the full CU800 as an expense.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 2, 3, 37, 87, AG6, AG33, AG43, AG44, AG114 and its related heading, AG117, AG122, AG124, AG125, and AG129 and its related heading, are amended, and paragraph 156A is added. New text is underlined and deleted text is struck through.

…

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments except:**

   …

   (j) **The initial recognition and initial measurement of rights and obligations arising from non-exchange revenue transactions to which ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations* applies; except as described in AG6.**

…

3. **The impairment requirements of this Standard shall be applied to those rights arising from IPSAS 9, *Revenue from Exchange Transactions* and ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) transactions which give rise to financial instruments for the purposes of recognizing impairment gains or losses.**

…

Recognition and Derecognition

…

Derecognition of Financial Liabilities

…

37. **The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a ~~non-exchange~~ revenue transaction without performance obligations, an entity applies ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Measurement

…

Impairment

…

Simplified Approach for Receivables

87. **Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:**

   (a) **Receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Effective Date

…

156B Paragraphs 2, 3, 37, 87, AG6, AG33, AG43, AG44, AG114 and its related heading, AG117, AG122, AG124, AG125, AG129 and its related heading were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

Scope

…

AG6. Rights and obligations (assets and liabilities) may arise from ~~non-exchange~~ revenue transactions without performance obligations.~~,~~ F~~f~~or example, an entity may receive cash from a multi-lateral agency to perform certain specified activities. Where the performance of those specified activities is subject to conditions, an asset and a liability is recognized simultaneously. Where the asset is a financial asset, it is recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and initially measured in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) and this Standard. A liability that is initially recognized as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from ~~non-exchange~~ revenue transactions without performance obligations are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.

…

Recognition and Derecognition

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with the relevant revenue standard (see IPSAS 9 and ~~IPSAS 23~~[draft] IPSAS [X] (ED 71)). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provi-

sions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

…

Derecognition of Financial Liabilities

…

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs ~~84 to 87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a ~~non-exchange~~ revenue transaction without performance obligations it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Measurement

~~Non-Exchange~~ Revenue Transactions without Performance Obligations

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions without performance obligations is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). Assets resulting from ~~non-exchange~~ revenue transactions without performance obligations can arise out of both contractual and non-contractual arrangements (see IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

(a) Initially recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71);

(b) Initially measured:

(i) At ~~fair value~~ the transaction price using the principles in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71); and

(ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit

…

Initial Measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

…

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the

transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) In all other cases, at the measurement required by paragraph 57, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The requirements of this paragraph do not apply to concessionary loans or equity instruments arising from ~~non-exchange~~ revenue transactions without performance obligations as outlined in paragraphs AG118 to AG130.

Concessionary Loans

…

AG122. Whether a loan is concessionary or originated credit-impaired depends on its substance. An intention to incorporate a ~~non-exchange~~ revenue without performance obligations component into the transaction, such as a transfer of resources, indicates the loan is concessionary. The ~~non-exchange~~ revenue without performance obligations component is incorporated into the transaction by granting the loan at below market terms. By contrast, originated credit-impaired loans are loans where one or more events, that have a detrimental impact on the estimated future cash flows of the financial asset, have occurred.

…

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~ 119-120 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155 Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).

AG125. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

(b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a

controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

Illustrative Examples are provided in paragraph IE61 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) as well as paragraphs IE153 to IE161 accompanying this Standard.

…

Equity Instruments Arising from ~~Non-Exchange~~ Revenue Transactions without Performance Obligations

…

AG129. At initial recognition of such transactions, an entity shall analyze the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a ~~non-exchange~~ revenue transaction without performance obligations. To the extent that the transaction, or component of the transaction, is a ~~non-exchange~~ revenue transaction without performance obligations, any assets or revenues arising from the transaction are accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

…

Scope

BC6. Assets and liabilities may arise out of contractual non-exchange revenue transactions. At the time this Standard was developed, ~~The~~the initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions ~~is~~ was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~ did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC7. When this Standard was being developed, ~~The~~ the IPSASB agreed that where an asset acquired in a non-exchange transaction is a financial asset, an entity:

- Initially recognizes the asset using IPSAS 23; and
- Initially measures the asset using IPSAS 23 and, considers the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 ~~does~~ did not prescribe subsequent measurement or derecognition requirements for assets acquired in a non-exchange transaction, this Standard is applied to those assets if they are financial assets.

BC8. For liabilities, the IPSASB agreed, when developing this Standard, that liabilities arising from conditions imposed on a transfer of resources in accordance with IPSAS 23 are initially recognized and initially measured using that IPSAS, as these liabilities usually do not meet the definition of a financial liability at initial recognition (see IPSAS 28). After initial recognition, if

circumstances indicate that the liability is a financial liability, an entity assesses if the liability recognized in accordance with IPSAS 23 should be derecognized and a financial liability recognized in accordance with this Standard.

BC9. At the time IPSAS 41 was finalized, t~~T~~he IPSASB agreed that other liabilities that arise from non-exchange revenue transactions, for example, the return of resources based on a restriction on the use of an asset, are recognized and measured in accordance with this Standard if they meet the definition of a financial liability.

…

Initial Measurement

BC10. When the IPSASB developed this Standard, ~~The IPSASB~~ it was acknowledged that there is an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 ~~requires~~ required that assets acquired in a non-exchange revenue transaction ~~are~~ were measured initially at fair value. This Standard requires financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC11. At that time,~~The~~ the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

Equity Instruments Arising from Non-Exchange Transactions

BC12. In the public sector, equity instruments are sometimes obtained with minimal cash flow expectations as a way to provide funding to another public sector entity for providing a service. The IPSASB considered the need for additional guidance similar to concessionary loans for such equity instruments acquired at non-market terms. While the IPSASB agreed that there are fundamental differences between the economic substance of such arrangements compared to concessionary loans. The IPSASB also agreed that, when this Standard was developed, the guidance in IPSAS 23 and the Standard sufficiently ~~address~~ addressed the recognition and measurement of such transactions, additional guidance ~~is~~ was included to provide clarity.

…

Analyzing the Substance of Equity Instruments Arising from Non-Exchange Transactions

BC26. When developing this Standard, ~~The~~the IPSASB considered that the existing requirements and guidance in IPSAS 28 and IPSAS 23 already appropriately addressed these matters. IPSAS 28 ~~defines~~ defined an equity instrument and ~~explains~~ explained how to determine whether a financial instrument is a financial liability or an equity instrument. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, paragraph 28, ~~includes~~ included examples of contributions from owners. Nevertheless, the IPSASB agreed to develop implementation guidance (paragraph G.4) to support constituents in analyzing the substance of financial instruments arising from non-exchange transactions.

…

ILLUSTRATIVE EXAMPLES

…

Concessionary Loans (Paragraphs AG118–AG126AG127)

Example 20—Receipt of a Concessionary Loan (Interest Concession)

…

IE154. The local authority has received a concessionary loan of CU5 million, which will be repaid at 5 percent below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognized in accordance with IPSAS 23 [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations.*

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognizes the following:

Dr		Bank	5,000,000	
	Cr	Loan (refer to Table 2 below)		4,215,450
	Cr	Liability or non-exchange revenue		784,550

Recognition of the receipt of the loan at fair value

IPSAS 23 [Draft] IPSAS [X] (ED 71) is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph IE54 of that Standard provides journal entries for the recognition and measurement of the off-market portion of the loan deemed to be non-exchange revenue.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

…

Section G Concessionary Loans and Non-Exchange Equity Transactions without Performance Obligations

G.1 Sequencing of "Solely Payments of Principal and Interest" Evaluation for a Concessionary Loan

If an entity issues a concessionary loan (financial asset) when does it assess classification for subsequent measurement purposes?

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a grant transfer, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs 119-12042–58 of IPSAS 23 [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of [draft] IPSAS X (ED 71), Revenue without Performance Obligations.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*). In forming their views, the IPSASB considered the views of respondents to Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* (issued August 2017) (the CP).

BC2. Governments and many other public sector entities derive the majority of their revenue from transactions without performance obligations. These transactions include, principally, taxation, but also transfers. This [draft] IPSAS addresses these types of transactions.

BC3. This [draft] Standard establishes broad principles for the recognition of revenue from transactions without performance obligations, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. In developing this [draft] Standard, the IPSASB considered whether to adopt an approach that focused on the development of requirements for accounting for revenue arising from a range of specific types of transactions without performance obligations. However, the IPSASB noted that such an approach brings with it consequential risks that the resultant [draft] Standard would not provide comprehensive guidance for all revenue from transactions without performance obligations. The IPSASB is of the view that the approach adopted in this [draft] Standard ensures that appropriate broad principles for the recognition of revenue from transactions without performance obligations are established and can be applied to all revenue from transactions without performance obligations.

Background

BC4. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts* respectively which were both issued by the International Accounting Standards Board (IASB).

BC5. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:

(a) Difficulty in making the distinction between exchange and non-exchange transactions;

(b) Difficulty in making the distinction between a condition and a restriction;

(c) Lack of guidance on multi-year funding arrangements;

(d) Lack of guidance on taxation received in advance of the period in which it is intended to be used;

(e) Lack of guidance on accounting for capital grants; and

(f) Lack of guidance on accounting for services in-kind.

BC6. In May 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which superseded IAS 11 and IAS 18. In discussing the possibility of superseding IPSAS 9 and IPSAS 11 with an IPSAS aligned with IFRS 15 the IPSASB considered that this may provide an opportunity to address some of the application issues with IPSAS 23. Consequently, the IPSASB issued thein August 2017 which outlined its proposals for developing and IPSAS to align with IFRS 15 and also updating IPSAS 23.

BC7. Respondents to the CP agreed with the proposals which led to the development of two revenue [draft] standards to replace the existing three: an IPSAS aligned with IFRS 15, updated for public sector specific issues, using a performance obligation approach, and an updated IPSAS 23 applicable to the majority of revenue transactions common to the public sector. Therefore, [draft] IPSAS [X] (ED 70) addresses revenue transactions with performance obligations and this [draft] Standard addresses revenue transactions without performance obligations (the updated IPSAS 23).

BC8. This Basis for Conclusions explains the IPSASB decisions regarding the changes made to IPSAS 23 in the development of this [draft] Standard. The IPSASB decided that all necessary authoritative text from IPSAS 23 should be incorporated into this [draft] Standard and therefore the Basis for Conclusion paragraphs from IPSAS 23 that relate to remaining IPSAS 23 text have been retained.

Scope

BC9. The IPSASB decided to change the approach for classification of revenue transaction from an exchange/non-exchange approach to that of whether or not the transaction had a performance obligation, as defined in [draft] IPSAS [X] (ED 70). Revenue transactions with performance obligations are accounted for under [draft] IPSAS [X] (ED 70) and revenue transactions without performance obligations are accounted for in this [draft] Standard. This [draft] Standard provides the accounting for:

(a) Revenue transactions from binding arrangements without performance obligations but with present obligations (see paragraphs BC12-BC14); and

(b) Revenue transactions which do not arise from a binding arrangement, including but not limited to:

i. Taxes;

ii. Bequests;

iii. Fines; and

iv. Certain donations

While these transactions may not arise from bindings arrangements, they may be a result of another arrangement such as legislation.

Unenforceable transactions

BC10. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied

requirement needs to be enforceable by the transfer provider. For example, taxpayers do not normally have enforceable rights, so the implied requirements will not give rise to present obligations of the resource recipient.

BC11. The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.

Enforceable transactions

BC12. The IPSASB considered whether it is possible to have an enforceable transaction with a present obligation that was not a performance obligation, as defined in [draft] IPSAS [X] (ED 70). The IPSASB concluded that a present obligation that is not a performance obligation can exist. The 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. Further such an arrangement leads to an outflow of resources because the transfer recipient 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.

BC13. The IPSASB decided that the present obligations in enforceable transactions would either be a:

(a) Specified activity; or

(b) Requirement to incur eligible expenditure.

The transfer recipient would recognize an asset and a liability when it had control of or right to the transfer and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.

BC14. The IPSASB noted that a specified activity or the requirement to incur eligible expenditure differs from a performance obligation in [draft] IPSAS [X] (ED 70) because there is no requirement for the transfer recipient to transfer a good or service to either the transfer provider or a third-party beneficiary.

Appropriations

BC15. The IPSASB noted that, in some jurisdictions, a binding arrangement for a revenue transaction without performance obligations might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the transfer recipient has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.

Determining the Transaction Price

BC16. In responding to constituent's concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

BC17. Constituents noted that there are a number of revenue transactions within the scope of draft IPSAS [X] ED (71) that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.

BC18. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probably a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

Capital Transfers

BC19. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. Therefore, this [draft] Standard includes guidance on accounting for capital transfers. However, the IPSASB noted that the accounting for capital transfers would be the same as for any other transfer in that if the transfer of resources arose outside of a binding arrangement revenue would be recognized by the transfer recipient when it controlled of had a right to those resources, and that revenue from capital transfers from binding arrangements would be recognized as the present obligations are satisfied.

BC20. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting for 'grants related to assets' which is defined as: "Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held".

BC21. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.

BC22. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users and therefore decided to develop an accounting approach for capital transfers which recognized that transfer in revenue as the non-financial asset (capital) asset is either procured or constructed.

BC23. The IPSASB considered that some capital transfers may include multiple present obligations, one being the procurement or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each present obligation should be considered separately in accordance with the nature of each obligation.

Monetary and Non-monetary Assets

BC24. This [draft] Standard does not establish different recognition requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that, while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify a different recognition point.

Transactions with both Performance Obligation and No Performance Obligation Components (Hybrid transactions)

BC25. This [draft] Standard notes that a single transaction can have two components, one that includes a performance obligation and one that does not have a performance obligation. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts enhances the transparency of financial statements. However, if the components cannot be separated, the whole transaction should be accounted for under [draft] IPSAS [X] (ED 70).

Contributions from Owners

BC26. This [draft] Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 7). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this [draft] Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Measurement of Assets

BC27. This [draft] Standard requires that assets acquired through transactions without performance obligations be initially measured at their transaction price as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In a transaction with performance obligations, the cost of acquisition is a measure of the fair value of the asset acquired. However, in a transaction without performance obligations the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction price most faithfully represents the actual value the public sector transfer recipient accrues as a result of the transaction. Initial measurement of non-monetary assets acquired through transactions without performance obligations at their transaction price, which is fair value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSAS with the requirements of this [draft] Standard.

Entity Bank Accounts

BC28. This [draft] Standard assumes the requirement that all money deposited in a bank account of a transfer recipient satisfies the definition of an asset and meets the criteria for recognition of an asset of the transfer recipient. The IPSASB established this principle in paragraphs 1.2.6 and

1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The [draft] Standard also requires the recognition of a liability in respect of any amount the transfer recipient has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Liabilities

BC29. This [draft] Standard requires that where a transfer recipient recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

BC30. This [draft] Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The [draft] Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts

BC31. This [draft] Standard requires a transfer recipient that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the transfer recipient may need to return part or all of the resources. One common view is that, where resources are received in advance of the taxable event, a transfer recipient should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the transfer recipient recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC32. This [draft] Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this [draft] Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this [draft] Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately

from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this [draft] Standard.

BC33. The treatment prescribed in this [draft] Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[1] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense.

The Tax Gap

BC34. For some taxes, transfer recipients will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

BC35. The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Services In-kind

BC36. This [draft] Standard permits, but does not require, recognition of services in kind. This [draft] Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the transfer recipient has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

BC37. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received particularly if those services were integral to the operations of the transfer recipient.

Compulsory Contributions and Levies to Social Security and Other Schemes

BC38. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents had commented to the IPSASB that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

[1] OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

BC39. The IPSASB concluded that such contributions are transactions without performance obligations, and should be accounted for in accordance with this [draft] Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this [draft] Standard.

BC40. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this [draft] Standard.

Breach of the terms and conditions of a binding arrangement

BC41. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors,* should be considered to determine whether the breach resulted in an error as defined in IPSAS 3. Where the circumstances of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this [draft] Standard should be applied.

Subsequent Measurement of Receivables

BC42. [Draft] IPSAS [X] (ED 71) applies to binding arrangements without performance obligations, which are broader than contractual agreements. It is therefore possible for receivables to fall outside the scope of IPSAS 41, *Financial Instruments*. Applying the measurement requirements of [draft] IPSAS [X] (ED 71) to such receivables would result in their initial measurement at the transaction price, as required by paragraphs 57-60 and AG115-AG117 of IPSAS 41. To address the lack of guidance for subsequent measurement of these receivables, the IPSASB added paragraphs 84-85, which are based on the subsequent measurement guidance in IPSAS 41.

Illustrative Examples

This guidance accompanies, but is not part of, [draft] Standard X [ED 71]

Scope

Example 1—Scope (paragraphs 3–9)

IE1. Municipality X received CU10 million from the federal government to support the public transit in the region.

Case A–Arrangement is within the Scope of this [draft] Standard

IE2. The transfer agreement requires funds be used by the municipality to enhance the transit experience in the region. Municipality X chooses to use the funds to reduce the fares due from ridership for the next fiscal year.

IE3. The municipality concludes the transfer received should be accounted for in accordance with the requirements of this [draft] Standard. As there is no requirement to deliver a good or service to the federal government, or a third-party beneficiary, no performance obligation exists.

Case B–Arrangement is within the Scope of [draft] IPSAS [X], ED 70, *Revenue with Performance Obligations* (Delivery of Goods to Purchaser)

IE4. The agreement requires funds be used as consideration for annual transit passes for all federal government employees living within the municipality.

IE5. The municipality concludes the consideration received should be accounted for in accordance with the requirements of [draft] IPSAS [X], ED 70. The requirement to deliver annual transit passes to the federal government in exchange for the consideration represents a performance obligation.

Case C–Arrangement is within the Scope of [draft] IPSAS [X], ED 70, *Revenue with Performance Obligations* (Delivery of Goods to Third-Party Beneficiary)

IE6. The transfer agreement requires funds be used to reduce the fares due from ridership over the age of 65 for the next fiscal year.

IE7. The municipality concludes the transfer received should be accounted for in accordance with the requirements of [draft] IPSAS [X], ED 70. The requirement to deliver a good or service to a third-party beneficiary, in this case, ridership over the age of 65, is a performance obligation.

Example 2—Income Tax (paragraph 94)

IE8. A national government (transfer recipient) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year), and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.

IE9. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of personal income tax on the income earned during the reporting period, to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

Example 3—Measurement of Taxation Revenue (paragraphs 97–100)

IE10. A national government (transfer recipient) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy-year period. The tax year and the reporting period are January 1 to December 31. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.

IE11. Income tax revenue should be recognized in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena, such as current and forecast information, to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax), and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.

IE12. The model enables the transfer recipient to reliably measure the assets and revenue accruing to it during the reporting period, which are then recognized and disclosed in the general purpose financial statements. The notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Example 4—Value Added Tax (paragraph 94)[1]

IE13. A national government (the transfer recipient) imposes a value-added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium-sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.

IE14. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value-added goods or services, during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 5—Goods and Services Tax (paragraph 94)

IE15. A national government (transfer recipient) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are required to electronically submit GST returns to the tax department on a

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[1] Some jurisdictions use the terms Value Added Tax (VAT) and Goods and Services Tax (GST) interchangeably.

weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.

IE16. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 6—Customs Duty (paragraph 94)

IE17. A national government (transfer recipient) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IE18. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

Example 7—Death Duties (paragraph 94)

IE19. A national government (transfer recipient) imposes death duties of 40 percent on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

IE20. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Example 8—Property Tax (paragraph 94)

IE21. A local government (transfer recipient) levies a tax of one percent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IE22. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the passing of the date on which the taxes are levied, July 31. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which that date occurs.

Example 9—Advance Receipts of Income Tax (paragraph 96)

IE23. Government A (transfer recipient) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.

IE24. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The transfer recipient recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Example 10—Transfer of resources to Another Level of Government for General Purposes – not binding (paragraphs 53, 107 and AG2(b))

IE25. The national government (transfer provider) makes a transfer of CU10 million to a local government (transfer recipient) in a socioeconomically deprived area. The local government (transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no present obligations attached to the transfer. All local governments are required to prepare and present audited general purpose financial statements.

IE26. Because, the arrangement is not binding, there is no present obligation, so the transfer is recognized as an asset and revenue in the general purpose financial statements of the reporting period in which it is controlled by the local government.

Example 11—Transfer of resources with a present obligation (paragraphs 14−26)

IE27. A national government (transfer provider) makes a cash transfer of CU50 million to a state government social housing transfer recipient, specifying that the recipient increases the stock of social housing by an additional 1,000 units over a 5-year period. There is no requirement in the arrangement for the state government housing transfer recipient to transfer ownership of the units to the national government upon their completion. If the 1,000 units are not completed within the stated timeline, the transfer recipient must return any remaining funds to the national government.

IE28. The state government social housing transfer recipient recognizes an increase in an asset (cash) and a liability in the amount of CU50 million when the transfer recipient has control of the transfer. The requirements in the agreement meet the requirements for a present obligation therefore a liability exists.

IE29. As the resources are used to increase the social housing stock, the transfer recipient will recognize revenue and decrease the liability as the housing stock is increased (i.e., as new stock is acquired or constructed).

Example 12—Transfer to a Public Sector University – unenforceable transaction (paragraph 53)

IE30. The national government (transfer provider) transfers 200 hectares of land in a major city to a university (transfer recipient) for the establishment of a university campus. The agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus or incur another form of redress.

IE31. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair

value in accordance with IPSAS 17. The obligation is not enforceable therefore does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Example 13—Transfer to Another Level of Government with Present Obligations (paragraphs 45-46)

IE32. The national government (transfer provider) provides CU10 million to a provincial government (transfer recipient) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for new railroad or tramway systems, and 20 percent for to purchase rolling stock. Under the terms of the agreement, the money can only be used as specified, and the provincial government (transfer recipient) is required to include a note in its audited general purpose financial statements detailing how the transfer was spent. The agreement requires the transfer to be spent as specified in the current year or be returned to the national government.

IE33. The provincial government recognizes the transfer as an asset. The provincial government also recognizes a liability in respect of the present obligations attached to the transfer. The binding arrangement contains three separate present obligations;

(a) The obligation to use CU4 million for modernizing the existing railroad and tramway system;

(b) The obligation to use CU4 million for new railroad or tramway systems; and

(c) The obligation to use CU2 million for purchasing rolling stock.

IE34. As the province satisfies the present obligations, it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Example 14—Research Grant (in Substance a Transaction with a performance obligation) (paragraph AG7)

IE35. A large corporation that makes cleaning products (transfer provider) gives money to a public university (transfer recipient) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation specifies that the research results are to be shared with it before being announced to the public, and that it has the right to apply for a patent on the compound.

IE36. This is a revenue transaction with performance obligations because the transfer recipient is required to transfer the research results to the transfer provider (purchase), in return for the transfer. Therefore, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. [Draft] IPSAS [X] (ED 70) *Revenue with Performance Obligations* and IPSAS 31, *Intangible Assets* apply to this transaction.

Example 15—Debt Forgiveness (paragraphs AG41-AG44)

IE37. The national government (transfer provider) lent a local government (transfer recipient) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no present obligations attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE38. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

Example 16—Proposed Bequest (paragraphs AG47-AG49)

IE39. A 25-year old recent graduate (transfer provider) of a public university names the university (transfer recipient) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

IE40. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transfer provider), which has not occurred.

Example 17—Pledge – Television Appeal for Public Hospital (paragraph 117)

IE41. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (recipient). The annual reporting date of the public hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IE42. The public hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The transfer recipient does not control the resources related to the pledge, because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources; therefore it cannot recognize the asset or the related revenue until the donation is binding on the donor.

Example 18—Fine (paragraphs 64-70 and 137)

IE43. A major corporation is found guilty of polluting a river. As a penalty, it is required to clean up the pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine but the company has announced that it will appeal the case. Historically, appeals of similar cases have resulted in the collection of approximately 75% of the initial amount of the fine.

IE44. The government (transfer recipient) recognizes a receivable and revenue of CU37.5 million in the general purpose financial statements of the reporting period in which the fine is imposed. If the transaction is material, the government also discloses: the legislation or regulation that the corporation violated to incur the fine; the fact that only CU37.5 million of that fine was recognized as revenue; and the fact that CU12.5 million of the fine was not recognized as its collection was not probable.

Example 19—External Assistance Recognized (paragraphs 107, AG50-AG54)

IE45. National Government A (transfer recipient) enters into an external assistance agreement with National Government B (transfer provider), which provides National Government A with development assistance to support National Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A and the types or items or expenses the transfer can be spent on to further its health objectives. National Government A measures the transaction price of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to the National Government B.

IE46. When the external assistance agreement becomes binding, National Government A recognizes an asset (a receivable) for the amount of CU5 million, and a liability of the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There is a requirement to satisfy a present obligation attached to this agreement therefore revenue is recognized and the liability decreased as that present obligation is satisfied.

Example 20—Revenue of Aid Agency (paragraphs 107, AG50–AG54)

IE47. Green-Aid Agency (transfer recipient) relies on funding from a group of governments (transfer providers). The governments have signed a binding arrangement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the agreed expenses of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time. Any funding not used in the budget year is refundable to the governments in the same proportion as the transfers were received.

IE48. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

IE49. In 20X7, Green-Aid Agency recognizes an asset of CU15 million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.

IE50. In 20X8, Green Aid Agency recognizes a further CU38 million as an asset and liability (as and when the funding is received) and then a total of CU53 million of revenue when the present obligation is satisfied. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

Example 21 —Goods in-kind received as Revenue (paragraph AG50 - AG54)

IE51. A Defense Force Agency of Government A (transfer provider) agrees to provide an Aid Agency of Government B (transfer recipient) with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Government A purchased the tents for CU100 per unit two years prior to transferring them to Government B. The agreement states that the tents are valued at CU100 per unit.

IE52. Upon receipt, Government B determines that the market price for this version of tent is CU50. Therefore, Government B recognizes revenue at the value of CU50 per unit received instead of the CU100 as per the agreement.

Example 22—Disclosure of Services In-kind not Recognized (paragraphs 110–115, 133)

IE53. A public hospital's (transfer recipient's) accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria

for recognition as assets. The hospital enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age, and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

IE54. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 23—Contribution from Owners (paragraphs 7−8)

IE55. In 20X0 the neighboring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognizes as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminum smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.

IE56. When the amendment to the charter becomes binding, TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

Example 24—Transfer from Binding Arrangement not Requiring Recognition of a Liability (paragraph 24)

IE57. National Park Department (transfer recipient) of Country A receives a transfer of CU500,000 from the bilateral aid agency of Country B (transfer provider). The binding arrangement specifies that the transfer is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. The terms of the agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that National Park Department has received a transfer of this type from the same transfer provider. In prior years, the transfer has not been used as specified, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

IE58. National Park Department analyzes the transaction and concludes that, although the terms of the agreement are enforceable, because the bilateral aid agency has not enforced the requirements in the past, and given no indication that it ever would, the arrangement has the form of an enforceable arrangement, but not the substance. Therefore, National Park Department recognizes an increase in an asset (cash in bank) and revenue; it does not recognize a liability.

Example 25—Disclosures Made in the Financial Statements of Government A (paragraphs 126–133)

IE59. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSAS for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Transactions without Performance Obligations		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		

Transfers receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities recognized under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Transactions without Performance Obligations

1. Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of [draft] IPSAS [X] (ED 71, *Revenue without Performance* Obligations). However, the Government takes advantage of the transitional provisions in that Standard in respect of income taxes and estate taxes.

   Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the transfer arrangement becomes binding, except for some services in-kind. The Government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.

3. Where a transfer is subject to a present obligation, if unfulfilled, requires the return of the transferred resources, the Government recognizes a liability until the requirements are fulfilled.

Basis of Measurement of Major Classes of Revenue Transactions without Performance Obligations

Taxes

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accrual basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accrual basis for the

reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.

5. Assets and revenue accruing from goods and services tax are initially measured at the transaction price of assets accruing to the Government during the reporting period, principally cash, cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the Government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

   Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. Estate tax of 40% is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the transaction price as at the date of acquisition of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the transaction price of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their transaction price, which is fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognized when a binding transfer arrangement is in place, but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*), to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The Government estimates that it will be able to reliably measure income tax on an accrual basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of noncompliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The Government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to build a public hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Requirements

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the requirement that it be used for public health purposes and not be sold for 50 years. The land was acquired by the

transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.

12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government, and subject to the requirement that it not be sold for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.

14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on condition that it be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the Government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the Government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured as there are no equivalent paid positions available in the local markets and, in the absence of volunteers, the services would not be provided. The Government does not recognize these services in the statements of financial position or financial performance.

Example 26—Concessionary Loans (paragraphs 119 to 120)

IE60. An transfer recipient receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:

  Year 1: no capital to be repaid

  Year 2: 10% of the capital to be repaid

  Year 3: 20% of the capital to be repaid

  Year 4: 30% of the capital to be repaid

  Year 5: 40% of the capital to be repaid
- Interest is charged at 5% per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10%.
- To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned).

- The transfer recipient built the following schools over the period of the loan:

  Year 1: 1 school completed

  Year 2: 3 schools completed

  Year 3: 5 schools completed

  Year 4: 10 schools completed

Analysis

The transfer recipient has effectively received a transfer of CU1 million and a loan of CU5 million (Note: A transfer recipient would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received an additional transfer of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10%).

The transfer of CU1 million + CU784,550 is accounted for in accordance with this [draft] Standard and, the loan with its related contractual interest and capital payments, in accordance with IPSAS 41.

1. On initial recognition, the transfer recipient will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the transfer recipient will recognize the following:				
Dr		Liability	CU178,455	
	Cr	Revenue without Performance Obligations		CU178,455
(1/10 of the schools built X CU1,784,550) (Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to IPSAS 41).				

3. Year 2: the transfer recipient will recognize the following (assuming that the transfer recipient subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue without Performance Obligations		CU356,910
(3/10 schools built X CU1,784,500 – CU178,455 already recognized)				

4. Year 3: the transfer recipient will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue without Performance Obligations		CU356,910
(5/10 schools built X CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the transfer recipient will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Revenue without Performance Obligations		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the transfer recipient would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue without Performance Obligations		CU1,784,550

Example 27—Interaction Between Measurement Requirements of [draft] IPSAS [X] (ED 71) Revenue without Performance Obligations) and IPSAS 41

Background

IE61. An individual donates shares in listed Entity X to public sector Entity A on January 1, 20X8. At that date, the shares in Entity X have a fair value of CU1,000,000. At December 31, 20X8, the fair value of the shares is CU900,000. As part of the arrangement, Entity A incurs the transfer duty to have the shares transferred into its name. These costs amount to CU10,000.

IE62. Entity A measures investments in shares at fair value through net assets/equity when the shares are not held for trading. Assume that the arrangement is a contractual arrangement, no present obligations arise from the donation and that Entity A's reporting period ends on December 31, 20X8.

Analysis

IE63. As Entity A received the shares as a donation, it used [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations)* to initially recognize the shares acquired and the related revenue without performance obligations. However, because Entity A has acquired a financial asset, it considers the initial measurement requirements of [draft] IPSAS [X] (ED 71) and IPSAS 41.

IE64. [Draft] IPSAS [X] (ED 71) prescribes that assets acquired as part of a revenue transaction without performance obligations are initially measured at fair value, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As Entity A has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

IE65. The subsequent measurement and derecognition of the shares is addressed in IPSAS 41. Entity A measures investments in shares at fair value through net assets/equity which means that the shares are measured at a fair value with any subsequent changes in fair value recognized in net assets/equity. Dividends are however recognized in surplus or deficit

The journal entries at initial acquisition and at the reporting dates are as follows:

1. Acquisition of shares through donation				
Dr		Investment in Entity X	CU1,010,000	
	Cr	Revenue without Performance Obligations		CU1,000,000
	Cr	Bank (Transfer costs paid)		CU10,000
2. Subsequent measurement at December 31, 20X8				
Dr		Net assets/equity (fair value adjustment of investment)	CU110,000	
	Cr	Investment in Entity X		CU110,000
Dr				
	Cr			

Example 28—Transaction with one component which is within the scope of [draft] IPSAS (ED 70) *Revenue with Performance Obligations*, and another component which is within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* (Paragraph 9)

IE66. A hospital foundation is raising funds by selling tickets to a networking dinner. The price of each ticket is CU300, and each ticket clearly states that if the networking dinner is cancelled, the foundation will only return CU100 to each ticket holder. Each ticket also clearly states that the remaining CU200 of consideration is non-refundable. Other than the networking dinner, the foundation is not obliged to provide any other good or service to the ticketholders.

IE67. The foundation applies paragraph 9 of [draft] IPSAS [X] (ED 71) and concludes that the disclosed cancellation terms provide evidence that each ticket consist of two components:

(a) CU100 of the transaction price relates to the promise to provide admission at the networking dinner to each ticket holder; and

(b) The remaining CU200, which is non-refundable, is considered a donation to the foundation, as the foundation is not obliged to provide any good or service in exchange for this amount.

IE68. Accordingly, CU100 of the consideration received for each ticket is within the scope of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, while the remaining CU200 per ticket is accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Example 29—Capital Transfers – Single Present Obligation (paragraph 108)

IE69. A National Government and a Local Authority enter into a binding arrangement which states that the National Government will provide CU22 million funding to the Local Authority to build a

multipurpose community center. The cost of construction is estimated at CU20 million and a 10% margin has been included in the transfer to cover indirect overhead costs. Once constructed, the community center will remain the property of the Local Authority. The center is not intended to have any one specific use but would be available to local community groups (i.e., youth groups, childcare, health and fitness groups) to use for a small fee to be paid to the Local Authority. The National Government will provide all the funding prior to the construction period but requires the Local Authority to provide a detailed progress report at each significant stage of construction (i.e., clearing the site, foundations, framing, lock up, first fit out/fixing, second fit out/fixing, completion). Each progress report must include details of the actual costs incurred in each stage. If the Local Authority fails to construct the community center or fails to provide the National Government with an appropriate progress report, any funds not used on the construction of the community center is to be returned to the National Government.

IE70. The Local Authority (transfer recipient) recognizes an increase in assets (either cash or accounts receivable) and a liability in the amount of CU22 million when it has obtained control of the resources. The requirement to construct the community center represents a present obligation, and therefore, a liability exists. This agreement does not meet the requirements for there to be a performance obligation (and is therefore not accounted for under [draft] IPSAS [X], (ED 70), *Revenue with Performance Obligations*) because there is no transfer of goods or services to the National Government (purchaser) or any third-party beneficiary.

IE71. As each stage of completion, the Local Authority provides a progress report to the National Government and reduces the liability by the amount spent on each stage, plus a 10% margin for overheads, and revenue is recognized for the same amount.

IE72. Once the community center has been constructed any funding that has not been used on the construction of the community center (including the 10% margin) is returned to the National Government. The remaining liability is debited and either a liability (accounts payable) is created for the repayment or cash is credited when the repayment is made.

Example 30—Capital Transfers – Multiple Present Obligations (paragraph 108)

IE73. Using the same facts as Example 27 above, except that the total funding has been increased to CU25 million and the binding arrangement states that the community center must be used as a child-care center for the first 10 years after completion of the building. For each year that the community center is not used as a child-care center, the Local Authority must repay CU300,000 to the National Government. The binding arrangement specifies certain high-level criteria that must be met for the building to qualify as a child-care center. However, these criteria do not specifically require the provision of child-care services to the National Government or third-party beneficiaries. The binding arrangement also sets out the mechanisms for the Local Authority to report whether it has met the criteria.

IE74. When assessing how to account for the transfer, the Local Authority must assess whether the binding arrangement has one or more present obligations, or a combination of present obligations and performance obligations, and shall account for each present obligation or performance obligation accordingly. Based on the refund requirement of CU300,000 per year for each year that the center is not used as a child-care center, the Local Authority concludes that CU3 million of the funding relates to the operation of the child-care center. As the binding arrangement does not require the provision of goods or services to the National Government or third-party beneficiaries, the Local Authority also concludes that both the obligation to construct the building and to operate it as a child-care center are not performance obligations. Accordingly, CU22 million of the funding relates to the construction of the building and is accounted as a capital transfer, similar to Example 27. The Local Authority assesses whether the requirement to operate the building as a child-care center for 10 years is enforceable by considering factors such as the National Government's ability to demand a refund or its ability to monitor compliance with the binding arrangement. If the requirement to operate the building as a child-care center is not enforceable, the remaining CU3 million is recognized as revenue immediately upon completion of

the building. If the requirement is enforceable, revenue is recognized as the present obligation is satisfied.

Example 31—Transfers Subject to Authorization of Appropriations

IE75. A national government and local government both have a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into a binding arrangement with the local government (the transfer recipient) to transfer CU15 million (CU10 million in 20X2 and CU5 million in 20X3) to the local government, to be used to reduce air pollution, in accordance with the national government's policy.

IE76. The binding arrangement includes a term that it is subject to an appropriation being authorized. In determining the effect of the term that the binding arrangement is subject to an appropriation being authorized, the national government considers substance over form, in accordance with paragraphs 36-37 and AG29-AG33.

IE77. Parliament authorizes the appropriation for CU10 million on March 31, 20X2. The appropriation for CU5 is not authorized in March 20X2 but is considered at a later date, as part of the appropriation process for 20X3.

Case A – Appropriation is in Substance a Limitation

IE78. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The binding arrangement is clear that the funding is subject to the appropriation being authorized, which is not certain, and that the amount may be reduced.

IE79. The local government concludes that it does not have an enforceable right to the CU15 million prior to the appropriations being authorized. Consequently, the limitation (that the transfer is subject to the appropriations being authorized) has substance and, in accordance with paragraphs 36-37 and AG29-AG33, the local government recognizes an asset of CU10 million as at December 31 20X2, but it does not recognize an asset for the CU5 million, as the appropriation has not been authorized, and the local government considers whether to disclose the binding arrangement as a contingent asset.

IE80. On March 31, 20X3, the Parliament authorizes the appropriation. At this date, the local government applies paragraphs 31-42 to determine when to recognize an asset.

Case B – Appropriation is not in Substance a Limitation

IE81. Authorizing legislation requires the national government to invest in measures to reduce air pollution, and the binding arrangement is a firm commitment by the national government to meet its legislative obligations by investing in specific measures, set out in the binding arrangement, to be undertaken by the local government.

IE82. The local government concludes that it has an enforceable right to the CU15 million prior to the appropriation being authorized. Consequently, the limitation (that the transfer is subject to the appropriation being authorized) does not have substance. As at March 15, 20X2, the local government applies paragraphs 32-43 in determining when to recognize an asset

Example 32—Disclosure of a Transfer Subject to Appropriations

IE83. The facts are the same as in Case A of Example 30. The local government does not recognize an asset for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE84. The local government concludes that the inflow of economic benefits is probable because the first payment of CU10 million was received in 20X2. Consequentially, the local government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2.

On March 15, 20X2, the local government entered into a binding arrangement with the national government to receive CU15 million in total (CU10 million in 20X2 and CU5 million in 20X3). The binding arrangement requires the funds to be used to reduce air pollution. The binding arrangement made it clear that the transfer was subject to an appropriation being authorized, and that approval was not certain and that funding could be reduced. The local government has not recognized an asset in respect of the CU5 million to be received in 20X3 because as at December 31, 20X2 the appropriation for this amount had not been authorized and therefore the local government does not have an enforceable right to the funds.

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Published by:

International Public
Sector Accounting
Standards Board®

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.ipsasb.org

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Exposure Draft (ED) 72 Summary—*Transfer Expenses*

This summary provides an overview of Exposure Draft (ED) 72, *Transfer Expenses.*

Project objective: The aim of Exposure Draft (ED) 72 is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expenses.

Project stage: The International Public Sector Accounting Standards Board® (IPSASB®) issued the Consultation Paper (CP) *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. The IPSASB issued ED 72 in February 2020.

Next steps: The IPSASB seeks feedback on ED 72 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that establishes requirements for accounting for transfer expenses.

Comment deadline: ED 72 is open for public comment until September 15, 2020.

How to respond: Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the website.

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Why the IPSASB Undertook this Project

The purpose of the IPSASB's project on non-exchange expenses is to develop new or amended standards that provide recognition and measurement requirements applicable to entities transferring resources in non-exchange transactions.

ED 72 proposes requirements for transfer expenses.

ED 72 also aims to ensure that the accounting for transfer expenses is consistent with the accounting for the equivalent revenue transactions that the IPSASB has been developing in parallel to its non-exchange expenses project.

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services and transfer expenses accounts for a significant portion of their expenditure.

Despite the importance of social benefits, collective and individual services and transfer expenses for most governments, until recently there had been little guidance in the IPSASB's literature on how to account for these transactions.

The IPSASB undertook a phased program of work to address these transactions, culminating with IPSAS 42, *Social Benefits*, issued in January 2019 and continuing with *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020.

ED 72 proposes accounting requirements for transfer expenses that will complete this program and fill a significant gap in the IPSASB's literature.

At the same time, the IPSASB was considering amendments to its requirements for accounting for revenue, and issued the CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017.

In the CP, the IPSASB explained the drivers behind the development of the revenue and non-exchange expenses projects. For the non-exchange expenses project, these included:

- The problems in operationalizing the exchange versus non-exchange distinction; and consideration of whether to replace this with a focus on whether transactions include a performance obligation.
- The gap in the current IPSASB literature on accounting for non-exchange expenses which may lead to ambiguity and inconsistency of accounting policies in highly significant areas of expenditure.
- The scope for ensuring consistency of approaches between resource providers (for non-exchange expense transactions) and resource recipients (for revenue transactions).

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Scope of ED 72

Table 1 illustrates the scope of ED 72, *Transfer Expenses*, and how it interacts with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations.*

Table 1: Scope of ED 72, *Transfer Expenses*

Description	Revenue with Performance Obligations (ED 70)	Revenue without Performance Obligations (ED 71)			Transfer Expenses (ED 72)			Outside the scope of Transfer Expenses (ED 72)
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B to undertake specified activities or incur eligible expenditure		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

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Definitions

ED 72 defines Transfer Expenses as follows:

A **transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return.

Other key definitions are found in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*.

Definitions included in ED 70

A **performance obligation** is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.

ED 72 relies on this definition to distinguish between transfer expenses with performance obligations, and transfer expenses without performance obligations. ED 72 has different requirements for each type of transfer expense. However, only performance obligations to transfer goods or services to third-party beneficiaries are within the scope of ED 72. Third-party beneficiaries are defined as follows:

A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets.

Definitions included in ED 71

A **transfer provider** is an entity that provides a good, service or other asset to another entity without directly receiving any good, service or other asset in return.

ED 72 specifies the accounting requirements for the transfer provider. The definitions of both a transfer expense and a transfer provider state that the transfer provider provides goods, services or other assets without directly receiving any good, service or other asset in return. If the provider were to receive goods, services or other assets in return, the transaction is outside the scope of ED 72.

A **transfer recipient** is an entity that receives a good, service, or other asset from another entity without directly providing any good, service, or other asset to that entity.

A transfer recipient may receive resources from the transfer provider in return for providing goods or services to third-party beneficiaries (transfer expenses with performance obligations), or may use the resources for their own purposes (transfer expenses without performance obligations).

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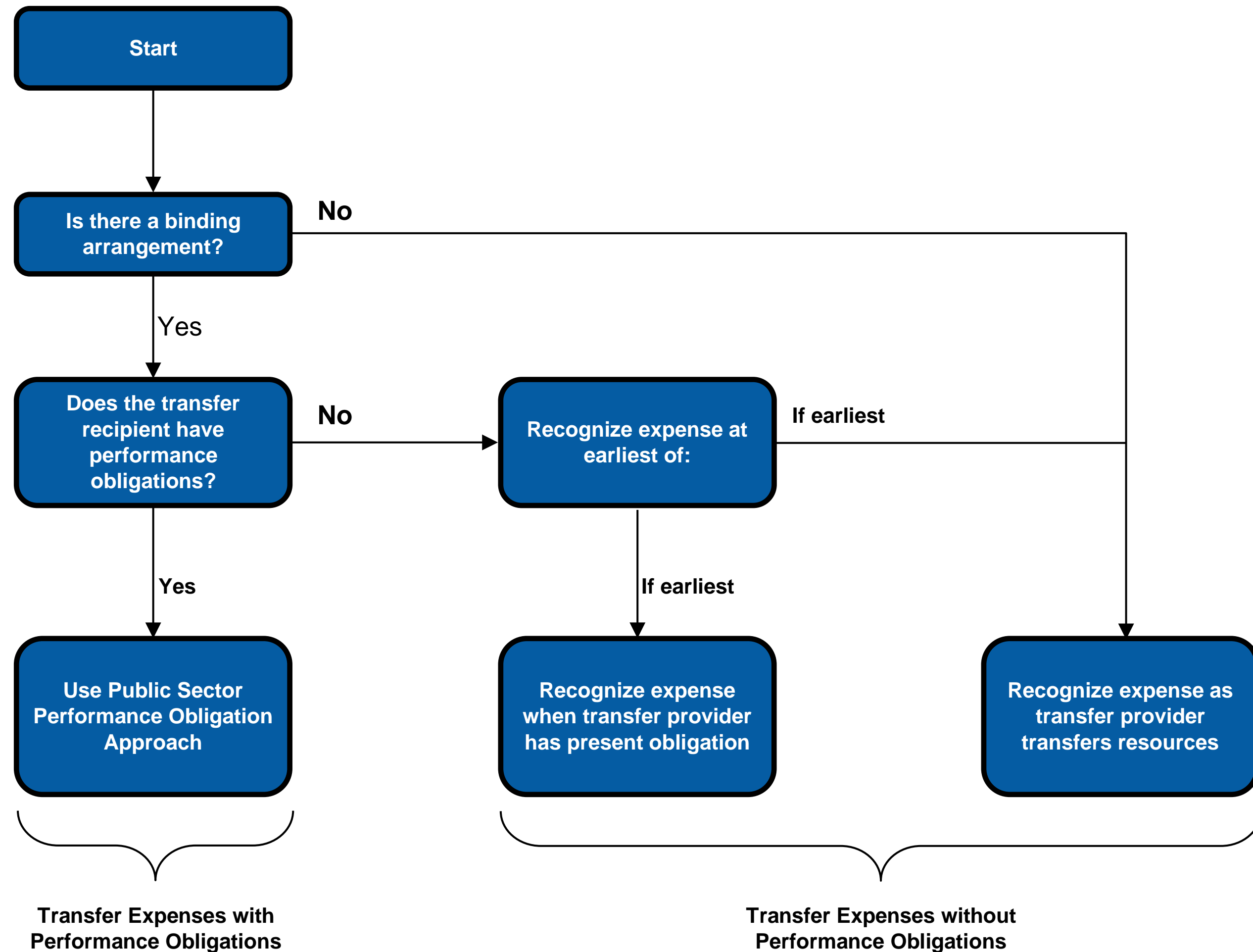
Accounting for Transfer Expenses

Figure 1 summarizes the arrangements for accounting for transfer expenses, including the issues that transfer providers will need to consider in determining the appropriate accounting for particular transactions.

Figure 1: Accounting for Transfer Expenses



Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach)

Transfer expenses with performance obligations are accounted for using the Public Sector Performance Obligation Approach (PSPOA).

The PSPOA adopts a five-step approach, based on the five-step approach used in ED 70, *Revenue with Performance Obligations*. This will enable consistency of accounting for the expense and revenue sides of a transaction.

Figure 2 illustrates the five steps of the PSPOA.

Figure 2: The Five Steps of the Public Sector Performance Obligation Approach

Step 1: Identify the Binding Arrangement

The parties to the binding arrangement must have approved the binding arrangement and be committed to performing their respective obligations.

The transfer provider must be able to identify each party's rights regarding the goods or services to be transferred, and be able to identify the payment terms for the goods or services to be transferred.

The transfer provider must monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. This is necessary to ensure the transfer provider has the information required to apply the PSPOA.

Where one or more of the criteria are not met, the transfer provider will account for the transfer expense as a transfer expense without performance obligations.

Step 2: Identify Performance Obligations

The PSPOA allocates expenses to the ***transfer recipient's*** performance obligations. The transfer provider needs to identify as a performance obligation each promise by the transfer recipient to transfer to a third-party beneficiary either:

- A good or service (or a bundle of goods or services) that is distinct; or
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary

Only those performance obligations to transfer goods and services to third-party beneficiaries are within the scope of ED 72. This is a subset of the performance obligations in ED 70, *Revenue with Performance Obligations*.

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Public Sector Performance Obligation Approach (continued)

The application of the PSPOA will be straightforward in many cases. For example, where a binding arrangement only contains one performance obligation, the total transaction consideration will be allocated to that performance obligation.

Although the PSPOA mirrors the accounting requirements in ED 70, some guidance is not included in ED 72 as the transfer provider is not expected to have the information required to apply that guidance. Where the transfer provider does have the necessary information, the transfer provider can use the guidance provided in ED 70.

Step 3: Determine the Transaction Consideration

The transaction consideration is the value of the resources (i.e., the consideration) that the transfer provider expects to transfer to the transfer recipient, in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary.

The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both. The following factors are considered in determining the transaction consideration

- Nature of the consideration;
- Amount of the consideration;
- Timing of the consideration, including any significant financing component;
- Variable consideration;
- Non-cash consideration; and
- Consideration receivable by a transfer provider.

Step 4: Allocate the Transaction Consideration

The total transaction consideration is allocated to individual performance obligations.

The transaction consideration is allocated in an amount that depicts the cost which the transfer provider expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.

To identify this cost, the transfer provider determines the stand-alone purchase price of each good or service that is to be transferred. This may be directly observable (where the goods or services are purchased individually) or may need to be estimated.

The transaction consideration is allocated in proportion to the stand-alone purchase prices. Additional guidance is provided for allocating discounts and variable consideration.

Step 5: Recognize a Transfer Expense

A transfer provider recognizes an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary.

A good or service is transferred when (or as) the third-party beneficiary obtains control of that good or service.

A transfer provider may determine the point at which the third-party beneficiary obtains control of the good or service by reference to the transfer recipient losing control of that good or service.

In some circumstances, the transfer provider may find it easier to identify when the transfer recipient loses control of the good or service, especially where there are multiple third-part beneficiaries who receive the good or service.

Transfer Expenses without Performance Obligations

Transfer expenses without performance obligations may arise:

- Where the transfer provider incurs expenses in accordance with a binding arrangement it has entered into with a transfer recipient, and the binding arrangement imposes present obligations–other than performance obligations–on the transfer recipient; or
- Where the transfer provider incurs expenses without the existence of a binding arrangement.

Recognition

A transfer expense without performance obligations is recognized at the earlier of the following dates:

- When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources;

and

- When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the transfer provider derecognizes the resources it ceases to control in accordance with other Standards.

Transfers to be made where there is no binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources.

If a transfer provider waives their right to collect a debt owed by a transfer recipient, effectively canceling the debt, the transfer provider recognizes an expense at the date that it derecognizes the financial asset that it has waived its right to collect.

Measurement

Where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider measures the expense at the carrying amount of the resources transferred.

In many cases, the resources that are transferred will be cash, and the expense is measured at the amount of cash transferred. In other cases, the resources may be a non-current asset, inventory, or services. The expense is measured at the carrying amount of resources transferred. In the case of services, this will be the cost of providing the services.

Where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it measures the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. The costs that the transfer provider will incur in settling the liability may include fixed costs, variable costs, or both.

The transfer provider also needs to consider the time value of money (where the transfer of resources will take place more than one year in the future) and the value of any non-cash transfers.

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Transfer Expenses without Performance Obligations (continued)

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an "authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority."

ED 72 specifies the subsequent measurement of non-contractual payables. Such transactions do not meet the definition of a transfer expense, but because they are not financial instruments, they are outside the scope of IPSAS 41, *Financial Instruments*. The accounting is the same as for transfer expenses

Transfer Expenses Subject to Appropriations

In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

In such circumstances, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. The transfer provider will need to consider substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

Where the transfer recipient has an enforceable right to the resources (meaning the transfer provider has a present obligation to transfer them) prior to the approval of the appropriation, the transfer provider recognizes a liability and an expense for future transfers prior to the appropriation being authorized.

In other cases, the authorization of the appropriation determines when a transfer provider has lost its discretion to avoid proceeding with a transfer. The transfer provider only recognizes a liability and an expense for the transfer when the appropriation is authorized.

Subsequent Measurement of Transfer Expenses

Where the liability (the payable) for a transfer expense without performance obligations is a financial liability as defined in IPSAS 41, *Financial Instruments*, the transfer provider shall account for the liability in accordance with IPSAS 41.

Where the liability for a transfer expense without performance obligations is not a financial liability as defined in IPSAS 41, the liability is reduced as the transfer provider transfers resources to the transfer recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of that liability is recognized in surplus or deficit in the period in which the liability is settled.

Subsequent Measurement of Other Non-Contractual Payables

An entity may recognize a payable arising out of the operation of legislation or regulation that does not meet the definition of a transfer expense. After initial recognition, that payable is accounted for in the same way as a payable for a transfer expense (except where the payable is within the scope of another Standard, in which case the requirements in that Standard are applied).

Comparison of Transfer Expenses without Performance Obligations and Revenue without Performance Obligations

Table 2 compares the accounting for transfer expenses without performance obligations in ED 72 with the accounting for the equivalent revenue in ED 71.

The recognition of a transfer expense and the related revenue occurs at the same time where there is no binding arrangement.

However, where a binding arrangement imposes present obligations on the transfer recipient, it is likely that the transfer provider will recognize a transfer expense before the transfer recipient recognizes the equivalent revenue.

Table 2: Transfer Expenses and Revenue without Performance Obligations

	Transfer Expenses	Revenue
The transfer provider incurs expenses in accordance with a binding arrangement that imposes present obligations on the transfer recipient.	**Financial Position:** The present obligations imposed on the transfer recipient do not give rise to an asset controlled by the transfer provider; no asset is recognized.	**Financial Position:** The transfer recipient recognizes an asset and a liability when it receives resources (or when it has a receivable, if earlier).
	Financial Performance: The transfer provider recognizes an expense as it transfers the resources (or when it has a payable, if earlier).	**Financial Performance:** The transfer recipient recognizes revenue (and derecognizes the liability) as it satisfies the present obligations.
The transfer provider incurs expenses without the existence of a binding arrangement.	**Financial Position:** Without a binding arrangement, the transfer provider does not recognize an asset.	**Financial Position:** Without a binding arrangement, there is no liability; the transfer recipient recognizes an asset when it receives resources.
	Financial Performance: The transfer provider recognizes an expense as it transfers the resources.	**Financial Performance:** The transfer recipient recognizes revenue when it receives the resources.

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Next Steps

The deadline for comments is September 15, 2020.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on ED 72 will be discussed. The dates and locations of 2020 meetings are available at: http://www.ipsasb.org/meetings.

To stay up to date about the project, please visit: http://www.ipsasb.org/projects/non-exchange-expenses.

Specific Matters for Comment

ED 72 includes nine Specific Matters for Comment, which cover the following issues:

SMC 1: The scope of ED 72.

SMC 2: The distinction between transfer expenses with performance obligations and transfer expenses without performance obligations.

SMC 3: The requirement that a transfer provider monitor the satisfaction of performance obligations to apply the PSPOA.

SMC 4: Recognition and measurement of transfer expenses with performance obligations.

SMC 5: Practicality of applying the PSPOA.

SMC 6: Recognition and measurement of transfer expenses without performance obligations.

SMC 7: Appropriateness of the different recognition points for transfer expenses without performance obligations and revenue without performance obligations (ED 71).

SMC 8: Transfer expenses subject to appropriations.

SMC 9: Disclosure requirements.

Exposure Draft 72
February 2020
Comments due: September 15, 2020

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Proposed International Public Sector Accounting Standard®

Transfer Expenses

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This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Transfer Expenses*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by September 15, 2020.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users of the website must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about transfer expenses.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

Specific Matter for Comment 2:

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*?

If not, what distinction, if any, would you make?

Specific Matter for Comment 3:

Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

Specific Matter for Comment 4:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

(a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and

(b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34.

Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

Specific Matter for Comment 5:

If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

Specific Matter for Comment 6:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:

(a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and

(b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

If not, how would you recognize and measure transfer expenses without performance obligations?

Specific Matter for Comment 7:

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.

Do you agree that this lack of symmetry is appropriate? If not, why not?

Specific Matter for Comment 8:

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?

If not, why not? What alternative treatment would you propose?

Specific Matter for Comment 9:

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

(a) Do you think there are any additional disclosure requirements that should be included?

(b) Are any of the proposed disclosure requirements unnecessary?

EXPOSURE DRAFT 72, TRANSFER EXPENSES

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Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity (a transfer provider) shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.**

   Paragraphs AG2–AG3 provide additional guidance on meeting the objective.

2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that a transfer provider shall recognize expenses as follows:

   (a) For transfer expenses where the transfer recipient is required to satisfy performance obligations by transferring goods or services to a third-party beneficiary, to depict the transfer of resources in an amount that reflects the consideration which the transfer provider expects to be obligated to pay in exchange for those goods or services; and

   (b) For transfer expenses where the transfer recipient is not required to satisfy performance obligations, at the earlier of the date at which the transfer provider has a present obligation to transfer resources to a transfer recipient, and the date when the transfer provider ceases to control the resources (i.e., when it transfers those resources to the transfer recipient).

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for transfer expenses as defined in this [draft] Standard, including transfer expenses incurred for capital transfers. Transactions which result in the entity receiving goods, services or other assets directly in return for the resources the entity transfers to the counterparty do not satisfy the definition of a transfer expense and are outside the scope of this [draft] Standard.**

4. **An entity shall also apply this [draft] Standard in accounting for the subsequent measurement of other non-contractual payables, except where the subsequent measurement of the payable is within the scope of another Standard. This [draft] Standard does not apply to the recognition and initial measurement of other non-contractual payables.**

5. **This [draft] Standard does not apply to:**

   (a) **Operating leases as defined in IPSAS 13, *Leases*;**

   (b) **Provisions as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**

   (c) **Collective services and individual services as defined in IPSAS 19;**

   (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**

   (e) **Concessionary loans as defined in IPSAS 41, *Financial Instruments*;**

   (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**

   (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts); and**

(h) **Share-based payments (see the international or national accounting standard dealing with share-based payments).**

6. Contributions from owners and distributions to owners are defined in IPSAS 1, *Presentation of Financial Statements*. Contributions from owners and distributions to owners do not meet the definition of a transfer expense, for the following reasons.

   (a) Contributions from owners establish a controlling entity's or an investor's financial interest in the net assets/equity of the controlled entity or investee. This financial interest is recognized as an asset in the controlling entity's or the investor's separate financial statements, and therefore does not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.

   (b) Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment. Distributions to owners are transfers in response to earlier investments by owners, and therefore do not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.

   Consequently, contributions from owners and distributions to owners are outside the scope of this [draft] Standard. An entity shall account for contributions from owners and distributions to owners in accordance with IPSAS 1.

7. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards.

   (a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 72–85 (transfer expenses with performance obligations) or paragraphs 102–114 (transfer expenses without performance obligations) to account for the amount of the transaction consideration or other transfer of resources that remains (if any).

   (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this [draft] Standard to separate and/or initially measure the part (or parts) of the binding arrangement.

   Paragraphs AG4–AG5 provide additional guidance on the scope of this Standard.

Definitions

8. **The following terms are used in this [draft] Standard with the meanings specified:**

Stand-alone purchase price (of a good or service) is the price at which a transfer provider would purchase a promised good or service[1] separately from a transfer recipient.

The transaction consideration (for a binding arrangement which imposes one or more performance obligations on a transfer recipient) is the amount of consideration to which the transfer provider expects to be obligated to pay in exchange for the transfer recipient transferring promised goods or services to a third-party beneficiary.

A transfer expense is an expense arising from a transaction, other than taxes[2], in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset[3] in return (paragraphs AG6–AG7 provide additional guidance).

A transfer provider's binding arrangement asset is a transfer provider's right to have goods or services transferred to a third-party beneficiary in exchange for consideration provided.

A transfer provider's binding arrangement liability is a transfer provider's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary when that obligation is conditioned on something other than the passage of time (for example, the transfer recipient's future performance).

9. The following terms are defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

   (a) Binding arrangement;

   (b) Contract;

   (c) Control of an asset;

   (d) Performance obligation; and

   (e) Third-party beneficiary.

   Paragraphs AG9–AG14 provide additional guidance on binding arrangements. Paragraphs AG15–AG23 provide additional guidance on the enforceability of binding arrangements.

   The following terms are defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 71):

   (f) Capital Transfer;

   (g) Eligible expenditure;

[1] References to goods and services or to goods or services are to be read as incorporating references to assets. This is because a transfer recipient will consider any item transferred to a third-party beneficiary to be a good or service, even if in some cases a third-party beneficiary would classify the item as a non-current asset on initial recognition.

[2] Taxes include other compulsory contributions and levies, as defined in [draft] IPSAS [X] (ED 71).

[3] The definition of a transfer expense includes references to "other asset" (for example, a non-current asset) for completeness. Elsewhere in this [draft] Standard, references to goods and services or to goods or services are to be read as incorporating references to assets.

(h) Specified activity;

(i) Fines;

(j) Taxes;

(k) Transfer provider; and

(l) Transfer recipient.

Paragraph AG8 provides additional guidance on the transfer recipient.

Expenses are defined in IPSAS 1.

Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach)

10. **A transfer provider may incur transfer expenses in accordance with a binding arrangement it has entered into with a transfer recipient, which requires the transfer recipient to provide goods or services to a third-party beneficiary. Requirements that a transfer recipient provide goods or services to a third party are a subset of performance obligations as defined in [draft] IPSAS [X] (ED 70). Where such a requirement satisfies the definition of a performance obligation, the transfer provider shall recognize and measure the related expenses by applying the Public Sector Performance Obligation Approach in paragraphs 13–89 below.**

11. The definition of a performance obligation in [draft] IPSAS [X] (ED 70) requires the transfer of goods or services, either to third-party beneficiaries or to the purchaser. Only those performance obligations which require the transfer of goods or services to third-party beneficiaries are within the scope of this [draft] Standard.

12. To meet the requirements in paragraph 2(a), this [draft] Standard requires a transfer provider to recognize transfer expenses with performance obligations by applying the following steps:

    (a) Step 1: Identifying the binding arrangement with a transfer recipient (see paragraphs 13–23);

    (b) Step 2: Identifying the transfer recipient's performance obligations in the binding arrangement (see paragraphs 24–32);

    (c) Step 3: Determining the transaction consideration (see paragraphs 47–71);

    (d) Step 4: Allocating the transaction consideration to the transfer recipient's performance obligations in the binding arrangement (see paragraphs 47 and 72–85); and

    (e) Step 5: Recognizing expenses when (or as) the transfer recipient satisfies a performance obligation (see paragraphs 33–46).

Recognition

Identifying the Binding Arrangement (Step 1)

13. **A transfer provider shall account for a transfer expense which imposes performance obligations to provide goods or services to a third-party beneficiary on the transfer recipient**

in accordance with the Public Sector Performance Obligation Approach in this [draft] Standard only when all of the following criteria are met:

(a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**

(b) **The transfer provider can identify each party's rights regarding the goods or services to be transferred;**

(c) **The transfer provider can identify the payment terms for the goods or services to be transferred; and**

(d) **The transfer provider can identify the transfer recipient's performance obligations and monitors the satisfaction of those performance obligations throughout the duration of the binding arrangement.**

Paragraphs AG26 and AG27 provide additional guidance. Where one or more of the criteria are not met, the transfer provider shall account for the transfer expense in accordance with paragraphs 90–114 (i.e., as a transfer expense without performance obligations). Consequently, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction is accounted for as a transfer expense without performance obligations.

14. A binding arrangement may include one or more components that meet the criteria in paragraph 13, and another component or components that do not meet the criteria in paragraph 13. A transfer provider shall recognize and measure such a binding arrangement as follows:

(a) The component or components of the binding arrangement that meet the criteria in paragraph 13 shall be treated as a separate binding arrangement, and recognized and measured in accordance with paragraphs 13–89; and

(b) The component or components of the binding arrangement that do not meet the criteria in paragraph 13 shall be treated as a separate binding arrangement for a transfer expense without performance obligations, and recognized and measured in accordance with paragraphs 91–114.

Paragraphs AG53–AG54 provide guidance on determining the transaction consideration where components of the binding arrangement do not relate to the transfer recipient's performance obligations.

15. A binding arrangement creates both enforceable rights and obligations on both parties to the arrangement through legal or equivalent means. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Binding arrangements can be written, oral or implied by a transfer provider's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors and entities. In addition, they may vary within a transfer provider (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). A transfer provider shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

16. Some binding arrangements with transfer recipients may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. A transfer provider shall apply this [draft] Standard to the duration of the binding arrangement in which the parties to the binding arrangement have present enforceable rights and obligations.

17. For the purpose of applying this [draft] Standard, a binding arrangement does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

    (a) The transfer provider has not yet paid, and is not yet obligated to pay, consideration to the transfer recipient in exchange for promised goods or services to be provided to third-party beneficiaries; and

    (b) The transfer recipient has not yet transferred any promised goods or services to a third-party beneficiary.

18. If a binding arrangement with a transfer recipient meets the criteria in paragraph 13 at the inception of the binding arrangement, a transfer provider shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a transfer recipient's ability to transfer the promised goods or services deteriorates significantly, a transfer provider would reassess whether it is probable that a third-party beneficiary will receive the goods or services promised in exchange for the consideration.

Combination of Binding Arrangements

19. A transfer provider shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

    (a) The binding arrangements are negotiated as a package with a single economic objective;

    (b) The amount of consideration to be paid in one binding arrangement depends on the price or performance of the other binding arrangement; or

    (c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance obligation in accordance with paragraphs 24–32.

Modifications to a Binding Arrangement

20. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by a transfer provider's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, a transfer provider shall continue to apply this [draft]

Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

21. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, a transfer provider shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price, a transfer provider shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 51–55 on estimating variable consideration and paragraphs 56–58 on constraining estimates of variable consideration.

22. A transfer provider shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

    (a) The scope of the binding arrangement increases because of the addition of promised goods or services to be transferred to third-party beneficiaries that are distinct (in accordance with paragraphs 28–32); and

    (b) The price of the binding arrangement increases by an amount of consideration that reflects the transfer provider's stand-alone purchase prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, a transfer provider may adjust the stand-alone purchase price of an additional good or service for a discount that the transfer provider receives for repeat purchases.

23. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 22, a transfer provider shall account for the promised goods or services not yet received by the third-party beneficiary at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

    (a) A transfer provider shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services are distinct from the goods or services received by the third-party beneficiary on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 24(b)) is the sum of:

        (i) The consideration promised to the transfer recipient (including amounts already received by the transfer recipient) that was included in the estimate of the transaction consideration and that had not been recognized as an expense; and

        (ii) The consideration promised as part of the modification to a binding arrangement.

    (b) A transfer provider shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the

date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the transfer recipient's progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to expense (either as an increase in or a reduction of expense) at the date of the modification of a binding arrangement (i.e., the adjustment to expense is made on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the transfer provider shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Identifying Performance Obligations (Step 2)

24. **At the inception of the binding arrangement, a transfer provider shall assess the goods or services promised by the transfer recipient in a binding arrangement and shall identify as a performance obligation of the transfer recipient each promise to transfer to a third-party beneficiary either:**

    (a) **A good or service (or a bundle of goods or services) that is distinct; or**

    (b) **A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary (see paragraph 25).**

    Paragraphs AG28–AG38 provide additional guidance on identifying performance obligations.

25. A series of distinct goods or services has the same pattern of transfer to the third-party beneficiary if both of the following criteria are met:

    (a) Each distinct good or service in the series that the transfer recipient promises to transfer to the third-party beneficiary would meet the criteria in paragraph 36 to be a transfer recipient's performance obligation satisfied over time; and

    (b) In accordance with paragraphs 40–41, the same method would be used to measure the transfer recipient's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the third-party beneficiary.

Promises in Transfer Expenses with Performance Obligations

26. A binding arrangement with a transfer recipient generally explicitly states the goods or services that a transfer recipient promises to transfer to a third-party beneficiary. However, the performance obligations identified in a binding arrangement with a transfer recipient may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement with a transfer recipient may also include promises that are implied by a transfer recipient's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the transfer provider that the transfer recipient will transfer a good or service to the third-party beneficiary.

27. Performance obligations of the transfer recipient do not include activities that a transfer recipient must undertake to fulfil a binding arrangement unless those activities transfer a good or service to a third-party beneficiary. For example, a transfer recipient may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not transfer a service

to a third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a performance obligation of the transfer recipient.

Distinct Goods or Services

28. Depending on the binding arrangement, goods or services promised to be delivered by a transfer recipient to a third-party beneficiary may include, but are not limited to, the following:

    (a) Transfer of goods produced by a transfer recipient to a third-party beneficiary (for example, inventory of a manufacturer);

    (b) Transfer of goods purchased by a transfer recipient to a third-party beneficiary (for example, merchandise of a retailer);

    (c) Transfer of rights to goods or services purchased by a transfer recipient to a third-party beneficiary (for example, emission allowances purchased and subsequently transferred by a transfer recipient);

    (d) A transfer recipient performing a task for a third-party beneficiary that is agreed upon in the binding arrangement (for example, a supplier providing computer maintenance services to schools);

    (e) A transfer recipient providing a service of standing ready to provide goods or services to third party beneficiaries (for example, paramedics on site at an athletic competition organized by a community group);

    (f) A transfer recipient providing a service of arranging for another party to transfer goods or services to a third-party beneficiary (for example, acting as an agent of another party);

    (g) A transfer recipient constructing, manufacturing or developing an asset on behalf of a third-party beneficiary (for example, a residential development constructed for a housing association); and

    (h) A transfer recipient granting licenses (see paragraphs AG70–AG83).

29. A good or service that is promised by a transfer recipient is distinct if both of the following criteria are met:

    (a) The transfer provider has assessed that the third-party beneficiary can receive economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to the third-party beneficiary (i.e., the good or service is capable of being distinct); and

    (b) The transfer recipient's promise to transfer the good or service to the third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

30. A third-party beneficiary can receive economic benefits or service potential from a good or service in accordance with paragraph 29(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a third-party beneficiary may be able to receive the economic benefits or service potential from a good or service on its own. For other goods or services, a third-party beneficiary may be able to receive the economic benefits or service potential from the good or service only in conjunction with other readily available resources. A

readily available resource is a good or service that is sold separately (by the transfer recipient or another entity) or a resource that the third-party beneficiary has already obtained from the transfer recipient (including goods or services that the transfer recipient will have already transferred to the third-party beneficiary under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the third-party beneficiary can receive the economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the transfer recipient regularly provides a good or service separately would indicate that a third-party beneficiary can receive the economic benefits or service potential from the good or service on its own or with other readily available resources.

31. In assessing whether a transfer recipient's promises to transfer goods or services to the third-party beneficiary are separately identifiable in accordance with paragraph 29(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a third-party beneficiary are not separately identifiable include, but are not limited to, the following:

    (a) The transfer recipient provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the transfer provider has entered into binding arrangements. In other words, the transfer recipient is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the transfer provider. A combined output or outputs might include more than one phase, element or unit.

    (b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.

    (c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the transfer recipient would not be able to fulfil its promise by transferring each of the goods or services independently.

32. If a promised good or service is not distinct, a transfer provider shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the transfer provider accounting for all the goods or services promised in a binding arrangement as a single performance obligation of the resource recipient.

Satisfaction of Performance Obligations (Step 5)

33. **A transfer provider shall recognize an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a third-party beneficiary. An asset is transferred when (or as) the third-party beneficiary obtains control of that asset. A transfer provider may determine the point at which the third-party beneficiary obtains control of the asset by reference to the transfer recipient losing control of that asset.**

Paragraphs AG39–AG52 provide additional guidance on the satisfaction of performance obligations.

34. For each performance obligation identified in accordance with paragraphs 24–32, a transfer provider shall determine at the inception of the binding arrangement whether the transfer recipient satisfies the performance obligation over time (in accordance with paragraphs 36–38) or satisfies the performance obligation at a point in time (in accordance with paragraph 39). If the transfer recipient does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

35. Goods and services are assets, even if only momentarily, when they are received and used by the third-party beneficiary (as in the case of many services). Control of an asset, which is defined in [draft] IPSAS [X] (ED 70), refers to the ability of the third-party beneficiary to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, an asset. The economic benefits or service potential embodied in the asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the third-party beneficiary's objectives, that can be obtained directly or indirectly in many ways, such as by:

    (a) Using the asset to produce goods or provide services (including public services);

    (b) Using the asset to enhance the value of other assets;

    (c) Using the asset to settle liabilities or reduce expenses;

    (d) Selling or exchanging the asset;

    (e) Pledging the asset to secure a loan; and

    (f) Holding the asset.

Performance Obligations Satisfied Over Time

36. A transfer provider recognizes an expense over time when the transfer recipient satisfies a performance obligation over time. A transfer recipient transfers control of a good or service over time and, therefore, satisfies a performance obligation over time, if one of the following criteria is met:

    (a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG40–AG41);

    (b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that the third-party beneficiary controls as the asset is created or enhanced (see paragraph AG42); or

    (c) The transfer recipient's performance does not create an asset with an alternative use to the transfer recipient (see paragraph 37) and the transfer recipient has an enforceable right to payment for performance completed to date (see paragraph 38).

37. An asset created by a transfer recipient's performance does not have an alternative use for the transfer recipient if the transfer recipient is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited

practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the transfer recipient is made at the inception of the binding arrangement. After the inception of the binding arrangement, a transfer provider shall not update the assessment of the transfer recipient's alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AG43–AG45 provide guidance for assessing whether an asset has an alternative use to a transfer recipient.

38. A transfer provider shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether the transfer recipient has an enforceable right to payment for performance completed to date in accordance with paragraph 36(c). The transfer recipient's right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the transfer recipient must be entitled to payment for performance completed to date if the binding arrangement is terminated by the transfer provider or another party for reasons other than the transfer recipient's failure to perform as promised. Paragraphs AG46–AG49 provide guidance for assessing the existence and enforceability of a transfer recipient's right to payment and whether a transfer recipient's right to payment would entitle it to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

39. A transfer provider recognizes an expense at a point in time when the transfer recipient satisfies a performance obligation at a point in time. If a performance obligation is not satisfied over time in accordance with paragraphs 36–38, a transfer recipient satisfies the performance obligation at a point in time. To determine the point in time at which a third-party beneficiary obtains control of a promised asset and the transfer recipient satisfies a performance obligation, the transfer provider shall consider the requirements for control in paragraphs 33–35. In addition, a transfer provider shall consider indicators of the transfer of control (from the transfer recipient to the third-party beneficiary), which include, but are not limited to, the following:

    (a) The transfer recipient has a present right to payment for the asset—if a transfer provider is presently obliged to pay for an asset, then that may indicate that the third-party beneficiary has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.

    (b) The third-party beneficiary has legal title to the asset—legal title may indicate which party has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that a third-party beneficiary has obtained control of the asset. If a transfer recipient retains legal title solely as protection against the transfer provider's failure to pay, those rights of the transfer recipient would not preclude the third-party beneficiary from obtaining control of an asset.

    (c) The transfer recipient has transferred physical possession of the asset—the third-party beneficiary's physical possession of an asset may indicate that the third-party beneficiary has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with

control of an asset. For example, in some bill-and-hold arrangements, the transfer recipient may have physical possession of an asset that the third-party beneficiary controls. Paragraphs AG84–AG87 provide guidance on accounting for bill-and-hold arrangements.

(d) The third-party beneficiary has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the third-party beneficiary may indicate that the third-party beneficiary has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, a transfer provider shall exclude any risks that give rise to a separate performance obligation of the transfer recipient in addition to the performance obligation to transfer the asset. For example, a transfer recipient may have transferred control of an asset to a third-party beneficiary but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The third-party beneficiary has accepted the asset—the third-party beneficiary's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits and service potential from, the asset. To evaluate the effect of the acceptance clause in a binding arrangement on when control of an asset is transferred, a transfer provider shall consider the guidance in paragraphs AG88–AG89.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

40. For each performance obligation satisfied over time by a transfer recipient in accordance with paragraphs 36–38, a transfer provider shall recognize an expense over time by measuring the transfer recipient's progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict a transfer recipient's performance in transferring control of goods or services promised to the third-party beneficiary (i.e., the satisfaction of the transfer recipient's performance obligation).

41. A transfer provider shall apply a single method of measuring the transfer recipient's progress for each of the transfer recipient's performance obligations satisfied over time and the transfer provider shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, a transfer provider shall remeasure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for Measuring Progress

42. Appropriate methods for a transfer provider to measure the transfer recipient's progress are usually output methods. Input methods may also be used where such information is both available to the transfer provider and relevant to the assessment of an expense. Paragraphs AG50–AG52 provide guidance for using output methods and input methods to measure a transfer recipient's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, a transfer provider shall consider the nature of the good or service that the transfer recipient promised to transfer to the third-party beneficiary.

43. When applying a method for measuring a transfer recipient's progress, a transfer provider shall exclude from the measure of progress any goods or services for which the transfer recipient does not transfer control to a third-party beneficiary. Conversely, a transfer provider shall include in the

measure of progress any goods or services for which the transfer recipient does transfer control to a third-party beneficiary when satisfying that performance obligation.

44. As circumstances change over time, a transfer provider shall update its measure of a transfer recipient's progress to reflect any changes in the outcome of the transfer recipient's performance obligation. Such changes to a transfer provider's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reasonable Measures of Progress

45. A transfer provider shall recognize an expense for a transfer recipient's performance obligation satisfied over time only if the transfer provider can reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation. A transfer provider would not be able to reasonably measure a transfer recipient's progress towards complete satisfaction of a performance obligation if the transfer provider lacks reliable information that would be required to apply an appropriate method of measuring progress. Except where paragraph 46 applies, if the transfer provider cannot reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation, the transfer provider shall recognize an expense for a transfer recipient's performance obligation recognized at a point in time, or a transfer expense without performance obligations, whichever more faithfully represents the transfer provider's obligations to transfer resources to the transfer recipient.

46. In some circumstances (for example, in the early stages of a binding arrangement), a transfer provider may not be able to reliably measure the outcome of a transfer recipient's performance obligation at that point. Where the transfer provider expects to be able to measure the outcome of a transfer recipient's performance obligation at a later date, the transfer provider shall not recognize an expense until such time that it can reasonably measure the outcome of the transfer recipient's performance obligation.

Measurement

47. **When (or as) a transfer recipient satisfies a performance obligation, a transfer provider shall recognize as an expense the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation.**

Determining the Transaction Consideration (Step 3)

48. A transfer provider shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the value of the resources (i.e., the consideration) that the transfer provider expects to transfer to the transfer recipient, in exchange for transfer recipient transferring the promised goods or services to the third-party beneficiary. The consideration promised in a binding arrangement with performance obligations may include fixed amounts, variable amounts, or both.

49. The nature, timing and amount of consideration promised by a transfer provider affect the estimate of the transaction consideration. When determining the transaction consideration, a transfer provider shall consider the effects of all of the following:

    (a) Variable consideration (see paragraphs 51–55 and 59);

(b) Constraining estimates of variable consideration (see paragraphs 56–58);

(c) The existence of a significant financing component in the binding arrangement (see paragraphs 60–65);

(d) Non-cash consideration (see paragraphs 66–68); and

(e) Consideration receivable by a transfer provider (see paragraphs 69–71).

50. For the purpose of determining the transaction consideration, a transfer provider shall assume that the goods or services will be transferred by the transfer recipient to the third-party beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

51. If the consideration promised in a binding arrangement includes a variable amount, a transfer provider shall estimate the amount of consideration to which the transfer recipient will be entitled (and which the transfer provider will be obligated to pay) in exchange for transferring the promised goods or services to the third-party beneficiary.

52. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if a transfer recipient’s entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

53. The variability relating to the consideration promised by a transfer provider may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:

(a) The transfer provider has a valid expectation arising from a transfer recipient’s customary practices, published policies or specific statements that the transfer recipient will accept an amount of consideration that is less than the price stated in the binding arrangement. That is, it is expected that the transfer recipient will offer a price concession. Depending on the jurisdiction, sector or transfer recipient this offer may be referred to as a discount, rebate, refund or credit.

(b) Other facts and circumstances indicate that the transfer recipient’s intention, when entering into the binding arrangement with the transfer provider, is to offer a price concession to the transfer provider.

54. A transfer provider shall estimate an amount of variable consideration by using either of the following methods, depending on which method the transfer provider expects to better predict the amount of consideration which it will be required to pay to the transfer recipient:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if a transfer provider has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding

arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, a transfer recipient either achieves a performance bonus or does not).

55. A transfer provider shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration which the transfer provider will be required to pay to the transfer recipient. In addition, a transfer provider shall consider all the information (historical, current and forecast) that is reasonably available to the transfer provider and shall identify a reasonable number of possible consideration amounts. The information that a transfer provider uses to estimate the amount of variable consideration would typically be similar to the information that the transfer provider's management uses during the bid-and-proposal assessment process.

Constraining Estimates of Variable Consideration

56. A transfer provider shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 54 only to the extent that it is probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

57. In assessing whether it is probable that a significant reversal in the amount of cumulative expense recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, a transfer provider shall consider both the likelihood and the magnitude of the expense reversal. Factors that could increase the likelihood or the magnitude of an expense reversal include, but are not limited to, any of the following:

    (a) The amount of consideration is highly susceptible to factors outside the transfer provider's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

    (b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

    (c) The transfer provider's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.

    (d) The transfer recipient has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

    (e) The binding arrangement has a large number and broad range of possible consideration amounts.

58. A transfer provider shall apply paragraph AG81 to account for an expense in the form of a usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

59. At the end of each reporting period, a transfer provider shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The transfer provider shall account for changes in the transaction consideration in accordance with paragraphs 86–89.

The Existence of a Significant Financing Component in the Binding Arrangement

60. In determining the transaction consideration, a transfer provider shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer provider or the transfer recipient with a significant benefit of financing the transfer of goods or services to the third-party beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

61. The objective when adjusting the promised amount of consideration for a significant financing component is for a transfer provider to recognize an expense at an amount that reflects the price that the transfer provider would have paid for the promised goods or services if the transfer provider had paid cash for those goods or services when (or as) they transfer to the third-party beneficiary (i.e., the cash price). A transfer provider shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

    (a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services; and

    (b) The combined effect of both of the following:

        (i) The expected length of time between when the transfer recipient transfers the promised goods or services to the third-party beneficiary and when the transfer provider pays for those goods or services; and

        (ii) The prevailing interest rates in the relevant market.

62. Notwithstanding the assessment in paragraph 61, a binding arrangement with a transfer recipient would not have a significant financing component if any of the following factors exist:

    (a) The transfer provider paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the transfer provider or a third-party beneficiary.

    (b) A substantial amount of the consideration promised by the transfer provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the transfer provider or the transfer recipient (for example, if the consideration is a third-party beneficiary usage-based royalty).

    (c) The difference between the promised consideration and the cash price of the good or service (as described in paragraph 61) arises for reasons other than the provision of finance to either the transfer provider or the transfer recipient, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the transfer provider or the transfer recipient with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

63. As a practical expedient, a transfer provider need not adjust the promised amount of consideration for the effects of a significant financing component if the transfer provider expects, at the inception of the binding arrangement, that the period between when the transfer recipient transfers a

promised good or service to a third-party beneficiary and when the transfer provider pays for that good or service will be one year or less.

64. To meet the objective in paragraph 61 when adjusting the promised amount of consideration for a significant financing component, a transfer provider shall use the discount rate that would be reflected in a separate financing transaction between the transfer provider and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the transfer provider or the transfer recipient, including assets transferred in the binding arrangement. A transfer provider may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the transfer provider would pay in cash for the goods or services when (or as) they transfer to a third-party beneficiary. After the inception of the binding arrangement, a transfer provider shall not update the discount rate for changes in interest rates or other circumstances.

65. A transfer provider shall present the effects of financing (interest expense or interest revenue) separately from transfer expenses with performance obligations in the statement of financial performance. Interest expense or interest revenue is recognized only to the extent that a transfer provider's binding arrangement liability (or payable) or a transfer provider's binding arrangement asset is recognized in accounting for a transfer expense with performance obligations.

Non-Cash Consideration

66. To determine the transaction consideration for binding arrangements in which the transfer provider promises consideration in a form other than cash, the transfer provider shall measure the non-cash consideration (or promise of non-cash consideration) at the carrying amounts of the assets transferred or to be transferred.

67. If the carrying amount of the asset is not known, for example because the transfer provider has promised to provide services, and the costs of those services will not be known until the services have been provided, the transfer provider shall apply paragraphs 51–58 in measuring the non-cash consideration.

68. If the transfer provider contributes goods or services (for example, materials, equipment or labor) to facilitate a transfer recipient's fulfillment of the binding arrangement, the transfer provider shall assess whether it loses control of those contributed goods or services. If so, the transfer provider shall account for the contributed goods or services as non-cash consideration transferred to the transfer recipient.

Consideration Receivable by a Transfer Provider

69. Consideration receivable by a transfer provider includes cash amounts that a transfer recipient pays, or expects to pay, to the transfer provider. Consideration receivable by a transfer provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the transfer recipient. A transfer provider shall account for consideration receivable from a transfer recipient as a reduction of the transaction consideration and, therefore, of an expense unless the receipt by the transfer provider is in exchange for a distinct good or service (as described in paragraphs 28–32) that the transfer provider transfers to the transfer recipient. If the consideration receivable by a transfer provider includes a variable amount, the transfer provider shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 51–58.

70. If consideration receivable by a transfer provider is a payment for a distinct good or service transferred to a transfer recipient, then the transfer provider shall account for the sale of the good or service in accordance with [draft] IPSAS [X] (ED 70). However, if the amount of consideration receivable by the transfer provider exceeds the carrying amount of the distinct good or service that the transfer provider transfers to the transfer recipient (or, where the carrying amount is not known, the estimated cost of the distinct good or service), then the transfer provider shall account for such an excess as a reduction of the transaction consideration.

71. Accordingly, if consideration receivable by a transfer provider is accounted for as a reduction of the transaction consideration, a transfer provider shall recognize the reduction of an expense when (or as) the later of either of the following events occurs:

    (a) The transfer provider recognizes an expense for the receipt by the third-party beneficiary of the related goods or services from the transfer recipient; and

    (b) The transfer recipient pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the transfer recipient's customary practices.

Allocating the Transaction Consideration to Performance Obligations (Step 4)

72. **The objective when allocating the transaction consideration is for a transfer provider to allocate the transaction consideration to each of the transfer recipient's performance obligations (or distinct goods or services) in an amount that depicts the cost which the transfer provider expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.**

73. To meet the allocation objective, a transfer provider shall allocate the transaction consideration to each of the transfer recipient's performance obligations identified in the binding arrangement on a relative stand-alone purchase price basis in accordance with paragraphs 75–79, except as specified in paragraphs 80–82 (for allocating discounts) and paragraphs 83–85 (for allocating consideration that includes variable amounts).

74. Paragraphs 75–85 do not apply if a binding arrangement only imposes one performance obligation on the transfer recipient. However, paragraphs 83–85 may apply if a transfer recipient promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 24(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Purchase Prices

75. To allocate the transaction consideration to each of the transfer recipient's performance obligations on a relative stand-alone purchase price basis, a transfer provider shall determine the stand-alone purchase price at the inception of the binding arrangement of the distinct good or service underlying each of the transfer recipient's performance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone purchase prices.

76. The best evidence of a stand-alone purchase price is the observable price of a good or service when the transfer provider purchases that good or service separately in similar circumstances and from similar transfer recipients. In a binding arrangement, stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone purchase price of that good or service.

77. If a stand-alone purchase price is not directly observable, a transfer provider shall estimate the stand-alone purchase price at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 72. When estimating a stand-alone purchase price, a transfer provider shall consider all information (including entity-specific factors, information about the transfer recipient or class of transfer recipient, and market conditions where relevant) that is reasonably available to the transfer provider. In doing so, a transfer provider shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

78. Suitable methods for estimating the stand-alone purchase price of a good or service include, but are not limited to, the following:

    (a) Adjusted market assessment approach—a transfer provider could evaluate the market in which it purchases goods or services to be transferred to third-party beneficiaries and estimate the price that a transfer recipient in that market would be willing to accept for those goods or services. That approach might include referring to prices from the other entities providing similar goods or services.

    (b) Residual approach—a transfer provider may estimate the stand-alone purchase price by reference to the total transaction consideration less the sum of the observable stand-alone purchase prices of other goods or services promised in the binding arrangement. However, a transfer provider may use a residual approach to estimate, in accordance with paragraph 77, the stand-alone purchase price of a good or service only if one of the following criteria is met:

        (i) The transfer provider purchases the same good or service from different transfer recipients (at or near the same time) for a broad range of amounts (i.e., the purchase price is highly variable because a representative stand-alone purchase price is not discernible from past transactions or other observable evidence); or

        (ii) The transfer provider has not previously purchased the good or service on a stand-alone basis (i.e., the purchase price is uncertain).

79. A combination of methods may need to be used to estimate the stand-alone purchase prices of the goods or services promised by the transfer recipient in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone purchase prices. For example, a transfer provider may use a residual approach to estimate the aggregate stand-alone purchase price for those promised goods or services with highly variable or uncertain stand-alone purchase prices and then use another method to estimate the stand-alone purchase prices of the individual goods or services relative to that estimated aggregate stand-alone purchase price determined by the residual approach. When a transfer provider uses a combination of methods to estimate the stand-alone purchase price of each promised good or service in the binding arrangement, the transfer provider shall evaluate whether allocating the transaction consideration at those estimated stand-alone purchase prices would be consistent with the allocation objective in paragraph 72 and the requirements for estimating stand-alone purchase prices in paragraph 77.

Allocation of a Discount

80. A transfer provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone purchase prices of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when a transfer provider has observable evidence in accordance with paragraph 81 that the entire discount relates to only one or

more, but not all, of the transfer recipient's performance obligations in a binding arrangement, the transfer provider shall allocate a discount proportionately to all performance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the transfer provider allocating the transaction consideration to each of the transfer recipient's performance obligations on the basis of the relative stand-alone purchase prices of the underlying distinct goods or services.

81. A transfer provider shall allocate a discount entirely to one or more, but not all, of the transfer recipient's performance obligations in the binding arrangement if all of the following criteria are met:

    (a) The transfer provider regularly purchases each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

    (b) The transfer provider also regularly purchases on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone purchase prices of the goods or services in each bundle; and

    (c) The discount attributable to each bundle of goods or services described in paragraph 81(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the transfer recipient's performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.

82. If a discount is allocated entirely to one or more of the transfer recipient's performance obligations in the binding arrangement in accordance with paragraph 81, a transfer provider shall allocate the discount before using the residual approach to estimate the stand-alone purchase price of a good or service in accordance with paragraph 78(b).

Allocation of Variable Consideration

83. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

    (a) One or more, but not all, of the transfer recipient's performance obligations in the binding arrangement (for example, a bonus may be contingent on a third-party beneficiary receiving a promised good or service within a specified period of time); or

    (b) One or more, but not all, distinct goods or services promised by the transfer recipient in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 24(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

84. A transfer provider shall allocate a variable amount (and subsequent changes to that amount) entirely to one of a transfer recipient's performance obligations or to a distinct good or service that forms part of a transfer recipient's single performance obligation in accordance with paragraph 24(b) if both of the following criteria are met:

    (a) The terms of a variable payment relate specifically to the transfer recipient's efforts to satisfy the performance obligation or transfer the distinct good or service to a third-party beneficiary (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service to a third-party beneficiary beneficiary); and

(b) Allocating the variable amount of consideration entirely to one of the transfer recipient's performance obligations or the distinct good or service is consistent with the allocation objective in paragraph 72 when considering all of the performance obligations and payment terms in the binding arrangement.

85. The allocation requirements in paragraphs 72–82 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 84.

Changes in the Transaction Consideration

86. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which a transfer provider expects to pay in exchange for the promised goods or services to be transferred to third-party beneficiaries.

87. A transfer provider shall allocate to the transfer recipient's performance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, a transfer provider shall not reallocate the transaction consideration to reflect changes in stand-alone purchase prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as an expense, or as a reduction of an expense, in the period in which the transaction consideration changes.

88. A transfer provider shall allocate a change in the transaction consideration entirely to one or more, but not all, of the transfer recipient's performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 24(b) only if the criteria in paragraph 84 on allocating variable consideration are met.

89. A transfer provider shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 20–23. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, a transfer provider shall apply paragraphs 86–88 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

(a) A transfer provider shall allocate the change in the transaction consideration to the transfer recipient's performance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 23(a).

(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 22, a transfer provider shall allocate the change in the transaction consideration to the transfer recipient's performance obligations in the modified binding arrangement (i.e., the transfer recipient's performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Transfer Expenses without Performance Obligations

90. **A transfer provider shall recognize and measure transfer expenses without performance obligations in accordance with paragraphs 91–119 below. Transfer expenses without performance obligations may arise:**

(a) **Where the transfer provider incurs expenses in accordance with a binding arrangement it has entered into with a transfer recipient, and the binding arrangement imposes present obligations other than performance obligations on the transfer recipient; or**

(b) **Where the transfer provider incurs expenses without the existence of a binding arrangement.**

[Draft] IPSAS [X] (ED 71) provides guidance on present obligations other than performance obligations.

Recognition

91. **A transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:**

    (a) **When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and**

    (b) **When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the transfer provider derecognizes the resources it ceases to control in accordance with other Standards.**

92. For a present obligation to exist, the transfer recipient must be able to enforce the transfer of resources by the transfer provider, i.e., there must be a binding arrangement that imposes present obligations on the transfer recipient. For a binding arrangement to exist, the following conditions must be met:

    (a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;

    (b) The transfer provider can identify each party's rights regarding the obligations to be performed; and

    (c) The transfer provider can identify the payment terms for the contribution to be transferred.

93. Transfers to be made outside of a binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources. Paragraphs AG15–AG23 provide additional guidance on enforceability.

94. For the purpose of applying this [draft] Standard, where a transfer expense without performance obligations is to be made under a binding arrangement, the transfer expense without performance obligations does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

    (a) The transfer provider has not yet transferred, and is not yet obligated to transfer, any resources to the transfer recipient; and

    (b) The transfer recipient has not yet performed any activities that it agreed to perform as part of the binding arrangement.

Debt Forgiveness

95. **A transfer provider may waive its right to collect a debt owed by a transfer recipient, effectively canceling the debt. The transfer provider shall recognize an expense at the date that it derecognizes (in accordance with IPSAS 41) the financial asset, or portion of the financial asset, that it has waived its right to collect.**

96. Where a transfer provider is a controlling entity and the transfer provider forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraph 6. In accordance with paragraph 6, contributions from owners are outside the scope of this [draft] Standard.

Transfer Expenses without Performance Obligations Made as a Series of Transfers

97. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the transfer provider enters into a binding arrangement to provide annual funding over a three-year period. A transfer provider applies the requirements of paragraphs 91–94 to each transfer of resources to determine whether an expense is to be recognized.

Transfer Expenses without Performance Obligations Subject to Appropriations

98. Where a binding arrangement specifies that the resources to be transferred to a transfer recipient by a transfer provider are subject to an appropriation being authorized, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

99. This limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance where the transfer recipient can establish an enforceable right to those resources (and as a consequence the transfer provider has a present obligation to transfer the resources) before the appropriation is authorized. Paragraphs AG98–AG102 provide additional guidance on appropriations.

Modifications to a Binding Arrangement

100. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by a transfer provider's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, a transfer provider shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

101. A transfer provider shall account for modifications to a binding arrangement for transfer expenses without performance obligations as follows:

    (a) No adjustment is recognized for resources already transferred by the transfer provider to the transfer recipient and for which an expense has been recognized; and

(b) A transfer provider shall reassess the extent to which it has a present obligation to transfer resources to the transfer recipient at the date of the modification, based on the terms of the modified binding arrangement. Any difference between the present obligation based on the terms of the modified binding arrangement and the amount previously recognized as a liability shall be accounted for as an adjustment to expenses at the date of the modification.

Measurement

Initial Measurement

102. **Where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider shall measure the expense at the carrying amount of the resources transferred.**

103. **Where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. The costs that the transfer provider will incur in settling the liability may include fixed costs, variable costs, or both.**

104. When determining the costs that the transfer provider will incur in settling the liability, a transfer provider shall consider the effects of all of the following:

(a) Variable costs;

(b) Constraining estimates of variable costs;

(c) Time value of money; and

(d) Non-cash transfers.

Variable Costs

105. A transfer expense without performance obligations may include variable costs where, for example, the transfer provider has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. A transfer provider's best estimate of the amount it will incur to settle the liability reflects the transfer provider's assessment of the costs that the transfer recipient is likely to incur.

106. A transfer provider shall estimate an amount of variable costs by using either of the following methods, depending on which method the transfer provider expects to better predict the amount of costs it will incur:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible cost amounts. An expected value may be an appropriate estimate of the amount of variable costs if a transfer provider has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible cost amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable costs if the binding arrangement has only two possible outcomes (for example, a transfer recipient either purchases a new asset or refurbishes an existing asset).

107. For the purpose of determining the best estimate of the costs it will incur in settling the liability, a transfer provider shall assume that the transfer recipient will carry out the specified activities as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled or modified.

Constraining Estimates of Variable Consideration

108. Where a transfer provider's best estimate of the amount it will incur to settle the liability includes an element of variable consideration in accordance with paragraph 106, that element shall be included in the transfer provider's best estimate only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Time Value of Money

109. A transfer provider shall adjust the promised amount of resources to be transferred to the transfer recipient for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer recipient with a significant benefit of financing the activities the transfer recipient has agreed to perform. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

110. A transfer provider shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including the combined effect of both of the following:

    (a) The expected length of time between when the transfer recipient performs the activities it has promised to perform and when the transfer provider transfers the promised resources; and

    (b) The prevailing interest rates in the relevant market.

111. To meet the objective in paragraph 110 when adjusting the promised transfer or resources for a significant financing component, a transfer provider shall use the discount rate that would be reflected in a separate financing transaction between the transfer provider and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the transfer recipient, as well as any collateral or security provided by the transfer recipient. After the inception of the binding arrangement, a transfer provider shall not update the discount rate for changes in interest rates or other circumstances.

112. A transfer provider shall present the effects of financing (interest expense) separately from transfer expenses without performance obligations in the statement of financial performance. Interest expense is recognized only to the extent that a liability is recognized in accounting for a transfer expense without performance obligations.

113. As a practical expedient, a transfer provider need not adjust the expense and liability for the effects of the time value of money if the transfer provider expects, at the inception of the binding arrangement, that the period between when the transfer provider recognizes a liability and when the transfer provider transfers the resources to settle that liability will be one year or less.

Non-Cash Transfers

114. Where the resources transferred are non-cash assets, a transfer provider does not revalue the assets prior to derecognizing those assets.

Debt Forgiveness

115. Where a transfer provider forgives debt of a transfer recipient, the expense is measured at the carrying amount of the debt forgiven, in accordance with IPSAS 41.

Subsequent Measurement

116. **Where the liability for a transfer expense without performance obligations is a financial liability as defined in IPSAS 41, the transfer provider shall account for the liability in accordance with IPSAS 41.**

117. **Where the liability for a transfer expense without performance obligations is not a financial liability as defined in IPSAS 41, the liability shall be reduced as the transfer provider transfers resources to the transfer recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of that liability is recognized in surplus or deficit in the period in which the liability is settled.**

118. Where a liability is discounted in accordance with paragraph 109, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.

119. Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs that the transfer provider will incur in settling the liability.

Subsequent Measurement of Other Non-Contractual Payables

120. Where a transfer provider has recognized a payable arising out of the operation of legislation or regulation that does not meet the definition of a transfer expense in paragraph 8, a transfer provider applies the principles in paragraphs 116–119 to the measurement of that payable after initial recognition, except where the payable is within the scope of another Standard, in which case the transfer provider shall apply the measurement requirements in that Standard.

Presentation

Transfer Expenses with Performance Obligations

121. **When either party to a binding arrangement has performed, a transfer provider shall present the binding arrangement in the statement of financial position as a transfer provider's binding arrangement asset or a transfer provider's binding arrangement liability, depending on the relationship between the transfer recipient's performance and the transfer provider's payment. A transfer provider shall present any unconditional obligations to pay consideration separately as a payable.**

122. If a transfer provider pays consideration, or has an obligation to pay an amount of consideration that is unconditional (i.e., a payable), before the transfer recipient transfers a good or service to the third-party beneficiary, the transfer provider shall present the binding arrangement as a transfer provider's binding arrangement asset when the payment is made or the payment is due (whichever

is earlier). A transfer provider's binding arrangement asset is a transfer provider's right to have the goods or services transferred to a third-party beneficiary for which the transfer recipient has received consideration (or an amount of consideration is due) from the transfer provider. A transfer provider shall assess a transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

123. If a transfer recipient performs by transferring goods or services to a third-party beneficiary before the transfer provider pays consideration or before payment is due, the transfer provider shall present the binding arrangement as a transfer provider's binding arrangement liability, excluding any amounts presented as a payable. A transfer provider's binding arrangement liability is a transfer provider's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary.

124. A payable is a transfer provider's obligation to pay consideration that is unconditional. An obligation to pay consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, a transfer provider would recognize a payable if it has a present obligation to make payment even though that amount may be subject to refund in the future. A transfer provider shall account for a payable in accordance with IPSAS 41.

125. This [draft] Standard uses the terms 'transfer provider's binding arrangement asset' and 'transfer provider's binding arrangement liability' but does not prohibit a transfer provider from using alternative descriptions in the statement of financial position for those items. If a transfer provider uses an alternative description for a transfer provider's binding arrangement liability, the transfer provider shall provide sufficient information for a user of the financial statements to distinguish between payables and transfer provider's binding arrangement liabilities.

Transfer Expenses without Performance Obligations

126. A transfer provider shall present payables from transfer expenses without performance obligations separately from other payables, either in the statement of financial position or in the notes.

Disclosure

127. **The objective of the disclosure requirements is for a transfer provider to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from transfer expenses. To achieve that objective, a transfer provider shall disclose qualitative and quantitative information about all of the following:**

    (a) **Expenses from transfer expenses (see paragraph 131);**

    (b) **Binding arrangements for transfer expenses with performance obligations (see paragraphs 132–141);**

    (c) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses with performance obligations (see paragraphs 142–145);**

    (d) **Binding arrangements for transfer expenses without performance obligations (see paragraph 146); and**

(e) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses without performance obligations (see paragraph 152).**

128. A transfer provider shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A transfer provider shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

129. A transfer provider need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

130. In making the disclosures required by this [draft] Standard, a transfer provider shall consider the requirements of paragraphs 45–47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

Transfer Expenses

131. A transfer provider shall disclose all of the following amounts for the reporting period, unless those amounts are presented in the statement of financial performance separately from its other expenses:

(a) Expenses recognized from binding arrangements for transfer expenses with performance obligations by major classes;

(b) Expenses recognized from binding arrangements for transfer expenses without performance obligations by major classes; and

(c) Expenses recognized from transfer expenses without binding arrangements by major classes.

Transfer Expenses with Performance Obligations

132. A transfer provider shall disclose any impairment losses recognized in accordance with IPSAS 21 on any transfer provider's binding arrangement assets (i.e., rights to have goods or services transferred to a third-party beneficiary), which the transfer provider shall disclose separately from other impairment losses from other binding arrangements.

Disaggregation of Expenses

133. A transfer provider shall disaggregate expenses recognized from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors. A transfer provider shall apply the guidance in paragraphs AG109–AG111 when selecting the categories to use to disaggregate expenses.

134. In addition, a transfer provider shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 133) and expense information that is disclosed for each reportable segment, if the transfer provider applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

135. A transfer provider shall disclose all of the following:

    (a) The opening and closing balances of transfer provider's binding arrangement assets, payables and transfer provider's binding arrangement liabilities from binding arrangements for transfer expenses with performance obligations, if not otherwise separately presented or disclosed;

    (b) Expenses recognized in the reporting period that were included in the transfer provider's binding arrangement asset balance at the beginning of the period; and

    (c) Expenses recognized in the reporting period from performance obligations satisfied (or partially satisfied) by the transfer recipient in previous periods (for example, changes in transaction consideration).

136. A transfer provider shall explain how the timing of satisfaction of performance obligations by the transfer recipient (see paragraph 138(a)) relates to the typical timing of payment (see paragraph 138(b)) and the effect that those factors have on the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances. The explanation provided may use qualitative information.

137. A transfer provider shall provide an explanation of the significant changes in the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the transfer provider's balances of transfer provider's binding arrangement assets and transfer provider's binding arrangement liabilities include any of the following:

    (a) Changes due to public sector combinations;

    (b) Cumulative catch-up adjustments to expense that affect the corresponding transfer provider's binding arrangement asset or transfer provider's binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

    (c) Impairment of a transfer provider's binding arrangement asset;

    (d) A change in the time frame for an obligation to pay consideration to become unconditional (i.e., for a transfer provider's binding arrangement liability to be reclassified to a payable); and

    (e) A change in the time frame for a performance obligation of the transfer recipient to be satisfied (i.e., for the recognition of an expense arising from a transfer provider's binding arrangement asset).

Transfer Recipient's Performance Obligations

138. A transfer provider shall disclose information about the transfer recipient's performance obligations in its binding arrangements for transfer expenses with performance obligations, including a description of all of the following:

    (a) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration

amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58); and

(b) The nature of the goods or services that have been or will be transferred to the third-party beneficiary.

Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations

139. A transfer provider shall disclose the following information about a transfer recipient's remaining performance obligations:

 (a) The aggregate amount of the transaction consideration allocated to the transfer recipient's performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

 (b) An explanation of when the transfer provider expects to recognize as an expense the amount disclosed in accordance with paragraph 139(a), which the transfer provider shall disclose in either of the following ways:

  (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the resource recipient's remaining performance obligations; or

  (ii) By using qualitative information.

140. As a practical expedient, a transfer provider need not disclose the information in paragraph 139 for a transfer recipient's performance obligation if the transfer recipient's performance obligation is part of a binding arrangement that has an original expected duration of one year or less.

141. A transfer provider shall explain qualitatively whether it is applying the practical expedient in paragraph 140 and whether any consideration from binding arrangements for transfer expenses with performance obligations is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 139. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses with Performance Obligations

142. A transfer provider shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses with performance obligations. In particular, a transfer provider shall explain the judgments, and changes in the judgments, used in determining both of the following:

 (a) The timing of satisfaction of performance obligations by the transfer recipient (see paragraphs 143–144); and

 (b) The transaction consideration and the amounts allocated to the transfer recipient's performance obligations (see paragraph 145).

Determining the Timing of Satisfaction of Performance Obligations by the Transfer Recipient

143. For performance obligations that a transfer recipient satisfies over time, a transfer provider shall disclose both of the following:

    (a) The methods used to recognize an expense (for example, a description of the output methods or input methods used and how those methods are applied); and

    (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services by the transfer recipient to third-party beneficiaries.

144. For performance obligations satisfied at a point in time, a transfer provider shall disclose the significant judgments made in evaluating when a third-party beneficiary obtains control of promised goods or services.

Determining the Transaction Consideration and the Amounts Allocated to the Transfer Recipient's Performance Obligations

145. A transfer provider shall disclose information about the methods, inputs and assumptions used for all of the following:

    (a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

    (b) Assessing whether an estimate of variable consideration is constrained; and

    (c) Allocating the transaction consideration, including estimating stand-alone purchase prices of promised goods or services and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable).

Transfer Expenses without Performance Obligations

146. A transfer provider shall disclose all of the following:

    (a) A reconciliation of the opening and closing balances of payables from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed;

    (b) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken;

    (c) The amount of any liabilities forgiven by the transfer provider;

    (d) Where a transfer provider cannot reliably measure a liability for a transfer expense without performance obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and

    (e) The accounting policies adopted for the recognition of transfer expenses without performance obligations.

Disaggregation of Expenses

147. A transfer provider shall disaggregate expenses recognized from binding arrangements for transfer expenses without performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors.

148. In addition, a transfer provider shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 147) and expense information that is disclosed for each reportable segment, if the transfer provider applies IPSAS 18, *Segment Reporting*.

Payables Balances

149. A transfer provider shall disclose all of the following:

(a) The opening and closing balances of payables arising from transfer expenses without performance obligations, if not otherwise separately presented or disclosed; and

(b) Expenses recognized in the reporting period that were included in the payables arising from transfer expenses without performance obligations at the beginning of the period.

Transfer Expenses Subject to Appropriations

150. Where a transfer provider has agreed to provide a transfer of resources subject to appropriations being authorized, and has not recognized a liability or expense as the appropriation has not yet been authorized, the transfer provider shall consider whether to disclose a contingent liability by applying the requirements of IPSAS 19.

Transfer Expenses Where the Transfer Provider Cannot Monitor the Transfer Recipient's Satisfaction of Performance Obligations

151. Where a transfer provider has accounted for a binding arrangement as a transfer expense without performance obligations (in accordance with paragraph 13) because it does not monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transfer provider shall disclose that fact along with an explanation of why it is unable to monitor the satisfaction of the transfer recipient's performance obligations.

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses without Performance Obligations.

152. A transfer provider shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses without performance obligations. In particular, a transfer provider shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The determination of whether a promised transfer meets the criteria to be a present obligation; and

(b) The estimation of liabilities that include variable costs.

Practical Expedients

153. If a transfer provider elects to use the practical expedient about the existence of a significant financing component in paragraph 63 (transfer expenses with performance obligations) or paragraph 113 (transfer expenses without performance obligations) the transfer provider shall disclose that fact.

Effective Date and Transition

Effective Date

154. **A transfer provider shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier adoption is encouraged. If a transfer provider applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and shall apply [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71) at the same time.**

155. When a transfer provider adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the transfer provider's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

156. For the purposes of the transition requirements in paragraphs 157–163:

    (a) The date of initial application is the start of the reporting period in which a transfer provider first applies this [draft] Standard; and

    (b) A completed binding arrangement for transfer expenses with performance obligations is a binding arrangement for which the third-party beneficiary has received all of the goods or services specified in the binding arrangement.

Transfer Expenses with Performance Obligations

157. A transfer provider shall apply this [draft] Standard to binding arrangements for transfer expenses with performance obligations using one of the following two methods:

    (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 159; or

    (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 161–163.

158. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied to binding arrangements for transfer expenses with performance obligations, a transfer provider need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the transfer provider applies this [draft] Standard retrospectively in accordance with paragraph 157(a). A transfer provider may also present this information for the current period or for earlier comparative periods, but is not required to do so.

159. A transfer provider may use one or more of the following practical expedients when applying this [draft] Standard retrospectively to binding arrangements for transfer expenses with performance obligations, in accordance with paragraph 157(a):

    (a) For completed binding arrangements for transfer expenses with performance obligations, a transfer provider need not restate binding arrangements that:

        (i) Begin and end within the same annual reporting period; or

        (ii) Are completed at the beginning of the earliest period presented.

(b) For completed binding arrangements for transfer expenses with performance obligations that have variable consideration, a transfer provider may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) For binding arrangements for transfer expenses with performance obligations that were modified before the beginning of the earliest period presented, a transfer provider need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 22–23. Instead, a transfer provider shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

   (i) Identifying the transfer recipient's satisfied and unsatisfied performance obligations;

   (ii) Determining the transaction consideration; and

   (iii) Allocating the transaction consideration to the transfer recipient's satisfied and unsatisfied performance obligations.

(d) For all reporting periods presented before the date of initial application, a transfer provider need not disclose the amount of the transaction consideration allocated to the transfer recipient's remaining performance obligations and an explanation of when the transfer provider expects to recognize that amount as an expense (see paragraph 139).

160. For any of the practical expedients in paragraph 159 that a transfer provider uses, the transfer provider shall apply that expedient consistently to all binding arrangements for transfer expenses with performance obligations within all reporting periods presented. In addition, the transfer provider shall disclose all of the following information:

   (a) The expedients that have been used; and

   (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

161. If a transfer provider elects to apply this [draft] Standard retrospectively in accordance with paragraph 157(b), the transfer provider shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, a transfer provider may elect to apply this [draft] Standard retrospectively only to binding arrangements for transfer expenses with performance obligations that are not completed binding arrangements for transfer expenses with performance obligations at the date of initial application (for example, January 1, [Year] for a transfer provider with a December 31 year-end).

162. A transfer provider applying this [draft] Standard retrospectively in accordance with paragraph 157(b) may also use the practical expedient described in paragraph 159(c), either:

   (a) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the beginning of the earliest period presented; or

   (b) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the date of initial application.

If a transfer provider uses this practical expedient, the transfer provider shall apply the expedient consistently to all binding arrangements for transfer expenses with performance obligations and disclose the information required by paragraph 160.

163. For reporting periods that include the date of initial application, a transfer provider shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 157(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the transfer provider's previous accounting policies; and

(b) An explanation of the reasons for significant changes identified.

Transfer Expenses without Performance Obligations

164. A transfer provider shall apply this [draft] Standard to transfer expenses without performance obligations retrospectively, with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application.

165. A transfer provider shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit, or other component of net assets/equity, as appropriate, of the annual reporting period that includes the date of initial application. A transfer provider may elect to apply this [draft] Standard retrospectively only to binding arrangements where one or both parties have yet to perform all their obligations at the date of initial application (for example, January 1, [Year] for a transfer provider with a December 31 year-end).

166. For reporting periods that include the date of initial application, a transfer provider shall provide both of the following additional disclosures:

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the transfer provider's previous accounting policies; and

(b) An explanation of the reasons for significant changes identified.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 72)

AG1. This application guidance is organized into the following categories:

- (a) Objective (paragraphs AG2–AG3);
- (b) Scope (paragraphs AG4–AG5);
- (c) Definitions (paragraphs AG6–AG25);
- (d) Public Sector Performance Obligation Approach:
  - (i) Recognition (paragraphs AG26–AG52);
  - (ii) Measurement (paragraphs AG53–AG89); and
- (e) Transfer Expenses without Performance Obligations:
  - (i) Recognition (paragraphs AG91–AG102); and
  - (ii) Measurement (paragraphs AG104–AG108).

Objective (see paragraphs 1–2)

AG2. A transfer provider shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this [draft] Standard. A transfer provider shall apply this [draft] Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

AG3. This [draft] Standard specifies the accounting for an individual transfer. However, as a practical expedient, a transfer provider may apply this [draft] Standard to a portfolio of transfers with similar characteristics if the transfer provider reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual transfers within that portfolio. Transfers with performance obligations and transfers without performance obligations do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, a transfer provider shall use estimates and assumptions that reflect the size and composition of the portfolio.

Scope (see paragraphs 3–7)

AG4. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where a transfer provider provides a good or service to another entity without directly receiving any good or service in return. The definitions of "*binding arrangement", "performance obligation", "third-party beneficiary", "transfer expense", "transfer provider"* and *"transfer recipient"* in paragraph 8, or in other Standards as explained in paragraph 9, establish the key elements in applying the scope of the [draft] Standard.

AG5. This [draft] Standard does not address transactions where an entity receives any good or service in return for the good or service that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (see paragraphs 8–9)

Transfer Expense

AG6. This [draft] Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which an entity (the transfer provider) provides a good or service to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, an individual or another entity) without directly receiving any good or service in return. For the purposes of determining whether the entity has received a good or service, a transfer provider's binding arrangement asset is not considered to be an asset received by the transfer provider. This is because a transfer provider's binding arrangement asset is the right to have a good or service transferred to a third-party beneficiary. This is a temporary asset that will be derecognized as the transfer recipient fulfils its performance obligations.

AG7. In a transaction giving rise to a transfer expense, the transfer provider provides goods or services to a transfer recipient. Consequently, the transfer provider controls the goods or services prior to the transfer and is therefore acting as a principal. The accounting for a transfer expense by a transfer provider is the same whether the transfer provider transacts directly with the transfer recipient, or through an agent. Paragraph AG22 explains that a transfer recipient in a three-party transaction is not an agent, because it gains control of the goods or services transferred by the transfer provider, and are responsible for satisfying the performance obligations specified in the binding arrangement (i.e., for delivering different goods or services to third-party beneficiaries).

Transfer Recipient

AG8. A transfer recipient is defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organization, an individual or another entity) that receives a good or service from another entity without directly providing any good or service to that entity. While the transfer recipient does not provide any good or service to the transfer provider, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the transfer provider.

Binding Arrangement

AG9. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. The [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. In the public sector an arrangement is enforceable when the transfer provider and the transfer recipient are both able to enforce their respective rights and obligations through legal or equivalent means.

AG10. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means).

AG11. For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems is required.

AG12. A transfer provider considers the substance rather than the legal form of an arrangement in determining whether it is an enforceable binding arrangement. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both the transfer provider and the transfer recipient; and

(b) Remedies for non-performance by either party which can be enforced by the other party through legal or equivalent means.

AG13. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG14. To be considered a binding arrangement for the purposes of this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG15–AG23).

Enforceability

AG15. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the transfer recipient.

AG16. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence.

AG17. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to transfer the promised goods or services to a third-party beneficiary, or directing a transfer provider to transfer the promised consideration.

AG18. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of performance obligations by an entity this may result in a valid enforcement mechanism.

AG19. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same

government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to transfer goods or services to third-party beneficiaries may be enforceable. Similarly, a directive given by a minister or government department to a transfer provider controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should those promises not be fulfilled.

AG20. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the transfer provider. In general, the transfer provider's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the transfer provider to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in funding if other binding arrangements are breached, then the potential reduction in funding could be considered a valid enforcement mechanism.

AG21. When determining if a reduction of future funding would be an enforcement mechanism, the transfer provider shall apply judgment based on the facts and circumstances.

AG22. For the purposes of this [draft] Standard, transfer expenses with performance obligations involve three-party arrangements–transfer provider (the reporting entity in this [draft] Standard), transfer recipient and third-party beneficiaries. The third-party beneficiaries in three party arrangements do not have any rights to force the transfer recipient to deliver goods and services because they are not parties to the binding arrangement. However, for these three-party arrangements to be classified as transfer expenses with performance obligations, the transfer provider must have the ability to force the transfer recipient to deliver goods and services to third-party beneficiaries. In these three-party arrangements the transfer recipient is not an agent of the transfer provider because the transfer recipient gains control of the consideration from the transfer provider and is responsible for providing goods or services to the third-party beneficiaries.

AG23. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient under which both parties have rights and obligations. A transfer provider considers whether such a public announcement gives rise to a constructive obligation in accordance with IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

Public Sector Performance Obligation Approach (see paragraphs 11–89)

AG24. Transfer expenses with performance obligations always require the transfer recipient to transfer goods or services to a third-party beneficiary. This is as a consequence of the interaction of the definition of a performance obligation in [draft] IPSAS [X] (ED 70), which requires the transfer of goods or services by the transfer recipient, and the scope of this [draft] Standard, which excludes transactions where the transfer recipient would transfer those goods or services to the transfer provider in return for consideration.

AG25. The public sector performance obligation approach used in this [draft] Standard applies the principles in [draft] IPSAS [X] (ED 70) to transfer expenses with performance obligations. The guidance in this [draft] Standard has been developed taking into account the information that is expected to be available to a transfer provider. An example of the information that a transfer provider is not expected to have access to is the transfer recipient's inputs to permit the use of an input method in measuring progress towards complete satisfaction of a performance obligation. However, where a transfer provider has access to such additional information, it may apply the guidance in [draft] IPSAS X (ED 70) for which there is no equivalent guidance in this [draft] Standard in accounting for transfer expenses with performance obligations, provided such guidance does not conflict with the requirements of this [draft] Standard and that the transfer provider makes any related disclosure required by [draft] IPSAS [X] (ED 70).

Recognition (see paragraphs 13–46)

Identifying the Binding Arrangement (Step 1) (see paragraphs 13–23)

AG26. The criteria a transfer provider considers in determining when to account for a transfer expense with performance obligations are similar to those an entity would consider in determining when to account for revenue in accordance with [draft] IPSAS [X] (ED 70). However, in determining when to account for a transfer expense with performance obligations, a transfer provider does not need to consider whether the binding arrangement has economic substance. A transfer expense is the transfer of a good or service by the transfer provider without the transfer provider directly receiving a good or service in return, and consequently all transfer expenses have economic substance.

AG27. In accordance with paragraph 13(d), a transfer provider may account for a transfer expense as a transfer expense with performance obligations only if it monitors the transfer recipient's satisfaction of its performance obligations. This is because, without such monitoring, the transfer provider would not have reliable information about when a transfer expense arises. Without such information, the recognition of an expense could be inappropriately delayed. Consequently, where the transfer provider does not monitor the transfer recipient's satisfaction of its performance obligations, a transfer provider shall account for the transfer expense as a transfer expense without performance obligations.

Identifying Performance Obligations (Step 2) (see paragraphs 24–32)

AG28. This [draft] Standard requires transfer expenses with performance obligations to be recognized as or when a performance obligation is fulfilled by a transfer recipient.

AG29. Paragraph 24 requires a transfer provider to identify any performance obligations when a binding arrangement is entered into (Step 2 of the recognition model). A performance obligation is a promise by the transfer recipient in a binding arrangement with a transfer provider to transfer to third-party beneficiaries either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser.

AG30. The key features of this definition of a performance obligation are that goods and services must be distinct and there must be a transfer of these goods and services to a third-party beneficiary. If goods or services (or a bundle of goods or services) are not transferred and/or are not distinct,

the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 90–120).

AG31. In the public sector, identifying performance obligations may require significant judgment. A necessary condition for identifying a performance obligation is that the promise must be distinct to be able to determine when that performance obligation is fulfilled by the transfer recipient. In identifying performance obligations which are distinct a transfer provider considers the following factors:

(a) The nature or type of the goods or services;

(b) The cost or value of the goods or services;

(c) The quantity of the goods or services; and

(d) The period over which the goods or services must be transferred.

AG32. The existence of performance indicators in relation to the delivery of goods and services does not necessarily indicate the existence of a performance obligation as defined in [draft] IPSAS [X] (ED 70). A performance obligation is a promise by a transfer recipient within a binding arrangement to transfer goods or services or a bundle of goods or services to a third-party beneficiary based on the terms and conditions agreed between two parties (the transfer provider and the transfer recipient).

AG33. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Goods and Services

AG34. A good or service promised by a transfer recipient in a binding arrangement is distinct if the following two criteria are both met (see paragraph 29):

(a) The third-party beneficiary can derive the economic benefit or service potential from the good or service either on its own or together with other resources that are readily available to the third-party beneficiary (i.e., the good or service is capable of being distinct); and

(b) The transfer recipient's promise to transfer the good or service to the third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG35. When identifying a performance obligation, not only does the promised transfer of the goods and services by the transfer recipient in a promise need to be separately identifiable, but the promises in a binding arrangement must also be distinct from other promises in the same binding arrangement, to allow for the transfer provider to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.

Transfer of Goods and Services

AG36. The second requirement of a performance obligation is that there must be a transfer of goods and services to the third-party beneficiary. If there is no requirement to transfer control of goods or

services, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 90–120).

AG37. This [draft] Standard requires that transfer expenses are recognized when a transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary. The transfer of the good or service is indicated when the third-party beneficiary gains control of the promised goods or services. A transfer provider can receive the economic benefits or service potential from the good or service transferred to a third-party beneficiary where the transfer of the good or service to the third-party beneficiary contributes to the transfer provider achieving its service objectives.

AG38. Key features of the definition of control of an asset in [draft] IPSAS [X] (ED 70) include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Step 5: Satisfaction of Performance Obligations (see paragraphs 33–46)

Performance Obligations Satisfied Over Time (see paragraph 36)

AG39. In accordance with paragraph 36, a performance obligation is satisfied over time if one of the following criteria is met:

(a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG40–AG41);

(b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that a third-party beneficiary controls as the asset is created or enhanced (see paragraph AG42); or

(c) The transfer recipient's performance does not create an asset with an alternative use to the transfer recipient (see paragraphs AG43–AG45) and the transfer recipient has an enforceable right to payment for performance completed to date (see paragraphs AG46–AG49).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Transfer Recipient's Performance (see paragraph 36(a))

AG40. For some types of performance obligations, the assessment of whether a third-party beneficiary receives the economic benefit or service potential of a transfer recipient's performance as the transfer recipient performs, and the third-party beneficiary simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the third-party beneficiary of the economic benefits or service potential of the transfer recipient's performance can be readily identified.

AG41. For other types of performance obligations, a transfer provider may not be able to readily identify whether a third-party beneficiary simultaneously receives and consumes the economic benefits or service potential from the transfer recipient's performance as the transfer recipient performs. In

those circumstances, a performance obligation is satisfied over time if a transfer provider determines that another entity (i.e., another supplier) would not need to substantially re-perform the work that the transfer recipient has completed to date if that other entity were to fulfill the remaining performance obligation to the transfer provider. In determining whether another entity would not need to substantially re-perform the work the transfer recipient has completed to date, a transfer provider shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the transfer recipient from transferring the remaining performance obligation to another entity; and

(b) Presume that another entity fulfilling the remainder of the performance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the transfer recipient and that would remain controlled by the transfer recipient if the performance obligation were to transfer to another entity.

Third-Party Beneficiary Controls the Asset as it is Created or Enhanced

AG42. In determining whether a third-party beneficiary controls an asset as it is created or enhanced by the transfer recipient in accordance with paragraph 36(b), a transfer provider shall apply the requirements in paragraphs 33–35 and 39. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Transfer Recipient's Performance does not Create an Asset with an Alternative Use (see paragraph 36(c))

AG43. In assessing whether an asset has an alternative use to a transfer recipient in accordance with paragraphs 36(c) and 37, a transfer provider shall consider the effects of restrictions and practical limitations in the binding arrangement on the transfer recipient's ability to readily direct that asset for another use, such as providing it to a different purchaser. The possibility of the binding arrangement with the transfer provider being terminated is not a relevant consideration in assessing whether the transfer recipient would be able to readily direct the asset for another use.

AG44. A restriction in the binding arrangement on a transfer recipient's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the transfer recipient. A restriction in the binding arrangement is substantive if the transfer provider could enforce its rights to the promised asset if the transfer recipient sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the transfer recipient could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG45. A practical limitation on a transfer recipient's ability to direct an asset for another use exists if a transfer recipient would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the transfer recipient either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, a transfer recipient may be practically limited from redirecting assets that either have design specifications that are unique to a transfer provider or are located in remote areas.

Right to Payment for Performance Completed to Date (see paragraph 36(c))

AG46. A transfer recipient's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether a transfer recipient has a right to payment for performance completed to date, a transfer provider shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to perform as promised.

AG47. In some binding arrangements, a transfer provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the transfer provider might not have any right to terminate the binding arrangement. If a transfer provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to transfer to the third-party beneficiary the goods or services promised in the binding arrangement and require the transfer provider to pay the consideration promised in exchange for those goods or services. In those circumstances, a transfer recipient has a right to payment for performance completed to date because the transfer recipient has a right to continue to perform its obligations in accordance with the binding arrangement and to require the transfer provider to perform its obligations (which include paying the promised consideration).

AG48. In assessing the existence and enforceability of a right to payment for performance completed to date, a transfer provider shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

(a) Legislation, administrative practice or legal precedent confers upon the transfer recipient a right to payment for performance to date even though that right is not specified in the binding arrangement with the purchaser;

(b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) A transfer recipient's customary practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment in similar binding arrangements, a transfer recipient would continue to have a right to payment to date if, in the binding arrangement with the transfer provider, its right to payment for performance to date remains enforceable.

AG49. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a transfer provider, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the transfer provider is refundable for reasons other than the transfer recipient failing to perform as promised in the binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (see paragraphs 36–38)

AG50. Methods that can be used to measure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG51–AG52); and

(b) Input methods.

Output Methods

AG51. Output methods recognize expenses on the basis of direct measurements of the value to the transfer provider of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. Output methods are generally appropriate for recognizing expenses. When a transfer provider evaluates whether to apply an output method to measure a transfer recipient's progress, the transfer provider shall consider whether the output selected would faithfully depict the transfer recipient's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the transfer recipient's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the third-party beneficiary. For example, output methods based on units produced or units delivered would not faithfully depict a transfer recipient's performance in satisfying a performance obligation if, at the end of the reporting period, the transfer recipient's performance has produced work in progress or finished goods controlled by the third-party beneficiary that are not included in the measurement of the output. Similarly, output methods based on elapsed time would not faithfully depict a transfer recipient's performance in satisfying a performance obligation if goods or services are not delivered evenly over time. In evaluating whether to apply an output method to measure a transfer recipient's progress, a transfer provider has regard to materiality.

AG52. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to a transfer provider without undue cost.

Measurement (see paragraphs 47–85)

Step 3: Determining the Transaction Consideration (see paragraphs 48–71)

Determining the Transaction Consideration where Components of the Binding Arrangement do not Relate to the Transfer Recipient's Performance Obligations

AG53. A transfer provider shall allocate the transaction consideration to each of the transfer recipient's performance obligations in the binding arrangement so that the allocation depicts the amount of consideration to which the transfer provider expects to be obligated to pay in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary. This is based on the rebuttable presumption that all of the consideration is wholly related to the transfer of goods or services to the third-party beneficiary (i.e., that all of the consideration is transaction consideration).

AG54. In the public sector, a transfer provider may enter into a binding arrangement with a transfer recipient with a dual purpose of obtaining goods or services to be transferred to a third-party beneficiary and to help the transfer provider achieve its objectives. Such transactions may rebut the presumption that the transaction consideration is wholly related to the transfer of goods or services, as a portion of the consideration relates to helping the transfer provider achieve its objectives. To demonstrate that this presumption is rebutted, the terms of the binding arrangement must clearly specify that only a portion of the consideration is to be returned to the transfer provider in the event the transfer recipient does not deliver the promised goods or services to the third-party beneficiary. Where the presumption is rebutted, the transfer provider shall disaggregate the consideration and shall include the component that relates to the transfer of promised goods or services to the third-party beneficiary in the transition consideration in accordance with paragraphs 48–71. The remainder of the consideration (i.e., the amount that does not relate to the transfer of promised goods or services to the third-party beneficiary) shall be accounted for as a transfer expense without performance obligations in accordance with paragraphs 90–120. The existence of a component of the consideration that does not relate to the transfer of promised goods or services to the third-party beneficiary will often, but not always, be made explicit in the binding arrangement.

Step 4: Allocating the Transaction Consideration to Performance Obligations (see paragraphs 72–85)

Warranties

AG55. It is common for a transfer recipient to provide (in accordance with the binding arrangement, the law or the transfer recipient's customary practices) a warranty in connection with the provision of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a transfer provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG56. If a transfer provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the transfer recipient promises to provide the service to the third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, a transfer provider shall account for the promised warranty as a transfer recipient's performance obligation in accordance with paragraphs 24–32 and allocate a portion of the transaction consideration to that transfer recipient's performance obligation in accordance with paragraphs 72–85.

AG57. In assessing whether a warranty provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, a transfer provider shall consider factors such as:

(a) Whether the warranty is required by law—if the transfer recipient is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a transfer recipient's performance obligation because such requirements typically exist to protect transfer providers and third-party beneficiaries from the risk of purchasing defective products.

(b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a transfer recipient's performance obligation because it is more likely to provide a service to the third-party beneficiary in addition to the assurance that the product complies with agreed-upon specifications.

(c) The nature of the tasks that the transfer recipient promises to perform—if it is necessary for a transfer recipient to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a transfer recipient's performance obligation.

AG58. If a warranty, or a part of a warranty, provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a transfer recipient's performance obligation. Therefore, a transfer provider shall allocate the transaction consideration to the product and the service. If a transfer provider is promised both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the transfer provider shall account for both of the warranties together as a transfer recipient's single performance obligation.

Options for Additional Goods or Services

AG59. Options for a transfer provider to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, award credits (or points), renewal options in a binding arrangement for transfer expenses with performance obligations or other discounts on future goods or services.

AG60. If, in a binding arrangement for transfer expenses with performance obligations, a transfer recipient grants a transfer provider the option to purchase additional goods or services to be transferred to third-party beneficiaries, that option gives rise to a transfer recipient's performance obligation in the binding arrangement only if the option provides a material right to the transfer provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of transfer provider in that geographical area or market). If the option provides a material right to the transfer provider, the transfer provider in effect pays the transfer recipient in advance for future goods or services to be transferred to third-party beneficiaries and the transfer provider recognizes an expense when those future goods or services are transferred or when the option expires.

AG61. If a transfer provider has the option to acquire an additional good or service at a price that would reflect the stand-alone purchase price for that good or service, that option does not provide the transfer provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the transfer provider shall recognize an expense for the additional goods or services in accordance with this [draft] Standard only when it exercises the option to purchase the additional goods or services.

AG62. Paragraph 73 requires a transfer provider to allocate the transaction consideration to a transfer recipient's performance obligations on a relative stand-alone purchase price basis. If the stand-alone purchase price for a transfer provider's option to purchase additional goods or services is not directly observable, a transfer provider shall estimate it. That estimate shall reflect the

discount that the transfer provider would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the transfer provider could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG63. If a transfer provider has a material right to purchase future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then a transfer provider may, as a practical alternative to estimating the stand-alone purchase price of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Purchasers' Unexercised Rights

AG64. In accordance with paragraph 122, where a transfer provider makes a payment to a transfer recipient prior to the promised goods and services being transferred to the third-party beneficiary, the transfer provider shall recognize a transfer provider's binding arrangement asset in the amount of the prepayment for the transfer recipient's performance obligation to transfer, or to stand ready to transfer, goods or services in the future. A transfer provider shall derecognize that transfer provider's binding arrangement asset (and recognize an expense) when the transfer recipient transfers those goods or services to the third-party beneficiary and, therefore, satisfies its performance obligation.

AG65. A transfer provider's non-refundable prepayment to a transfer recipient gives the transfer provider a right to have a good or service transferred to a third-party beneficiary in the future (and obliges the transfer recipient to stand ready to transfer a good or service). However, a transfer provider may not exercise all of its rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG66. A transfer provider shall not derecognize a transfer provider's binding arrangement asset as a result of breakage until it is no longer entitled to exercise all of its rights. If a transfer provider expects breakage to occur, it shall assess the transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Non-refundable Upfront Fees (and some Related Costs)

AG67. In some binding arrangements, a transfer recipient charges a transfer provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG68. To identify the transfer recipient's performance obligations in such binding arrangements, a transfer provider shall assess whether the fee relates to the transfer of a promised good or service to a third-party beneficiary. In many cases, even though a non-refundable upfront fee relates to an activity that the transfer recipient is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the third-party beneficiary (see paragraph 27). Instead, the upfront fee is an advance payment for future goods or services to be provided to third-party beneficiaries and, therefore, would be recognized as an expense when those future goods or

services are provided to the third-party beneficiaries. The expense recognition period would extend beyond the initial period of the binding arrangement if the transfer recipient grants the transfer provider the option to renew the binding arrangement and that option provides the transfer provider with a material right as described in paragraph AG60.

AG69. If the non-refundable upfront fee relates to a good or service transferred to a third-party beneficiary, the transfer provider shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 24–32.

Other Specific Application Issues

Licensing

AG70. A license establishes a third-party beneficiary's rights to the intellectual property of a transfer recipient. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

(b) Motion pictures, music and other forms of media and entertainment;

(c) Franchises; and

(d) Patents, trademarks and copyrights.

AG71. In addition to a promise to grant a license (or licenses) to a third-party beneficiary, a transfer recipient may also promise to transfer other goods or services to the third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by a transfer recipient's customary practices, published policies or specific statements (see paragraph 26). As with other types of binding arrangements, when a binding arrangement with a transfer recipient includes a promise by the transfer recipient to grant a license (or licenses) in addition to other promised goods or services, a transfer provider applies paragraphs 24–32 to identify each of the transfer recipient's performance obligations in the binding arrangement.

AG72. If the transfer recipient's promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 28–32, a transfer provider shall account for the transfer recipient's promise to grant a license to a third-party beneficiary and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A license that the third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the transfer recipient that enables, by granting a license, the third-party beneficiary to access content).

AG73. If the license is not distinct, a transfer provider shall apply paragraphs 33–39 to determine whether the transfer recipient's performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

AG74. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the transfer recipient's promise to grant the license is a separate performance obligation, a transfer provider shall determine whether the license transfers to a third-party beneficiary either at a point in time or over time. In making this determination, a transfer provider shall consider whether the nature of the transfer recipient's promise in granting the license to a third-party beneficiary is to provide the third-party beneficiary with either:

(a) A right to access the transfer recipient's intellectual property as it exists throughout the license period; or

(b) A right to use the transfer recipient's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Transfer Recipient's Promise

AG75. The nature of a transfer recipient's promise in granting a license is a promise to provide a right to access the transfer recipient's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the transfer provider reasonably expects, that the transfer recipient will undertake activities that significantly affect the intellectual property to which the third-party beneficiary has rights (see paragraphs AG76 and AG77);

(b) The rights granted by the license directly expose the third-party beneficiary to any positive or negative effects of the transfer recipient's activities identified in paragraph AG75(a); and

(c) Those activities do not result in the transfer by the transfer recipient of a good or a service to the third-party beneficiary as those activities occur (see paragraph 27).

AG76. Factors that may indicate that a transfer provider could reasonably expect that a transfer recipient will undertake activities that significantly affect the intellectual property include the transfer recipient's customary practices, published policies or specific statements.

AG77. A transfer recipient's activities significantly affect the intellectual property to which the third-party beneficiary has rights when either:

(a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) The ability of the third-party beneficiary to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities.

Accordingly, if the intellectual property to which the third-party beneficiary has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the transfer recipient's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG78. If the criteria in paragraph AG75 are met, a transfer provider shall account for the transfer recipient's promise to grant a license to a third-party beneficiary as a performance obligation satisfied over time because the third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the transfer recipient's performance of providing access to its intellectual property as the performance occurs (see paragraph 36(a)). A transfer provider shall apply paragraphs 40–46 to select an appropriate method to measure the transfer recipient's progress towards complete satisfaction of the performance obligation to provide access.

AG79. If the criteria in paragraph AG75 are not met, the nature of a transfer recipient's promise is to provide a right to use the transfer recipient's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the third-party beneficiary. This means that the third-party beneficiary can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. A transfer provider shall account for the transfer recipient's promise to provide a right to use the transfer recipient's intellectual property as a performance obligation satisfied at a point in time. A transfer provider shall apply paragraph 39 to determine the point in time at which the license transfers to the third-party beneficiary. However, an expense cannot be recognized for a license that provides a right to use the transfer recipient's intellectual property before the beginning of the period during which the third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before a transfer recipient provides (or otherwise makes available) to the third-party beneficiary a code that enables the third-party beneficiary to immediately use the software, the transfer provider would not recognize an expense before that code has been provided (or otherwise made available).

AG80. A transfer provider shall disregard the following factors when determining whether a license provides a right to access the transfer recipient's intellectual property or a right to use the transfer recipient's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the transfer recipient satisfies its performance obligation at a point in time or over time.

(b) Guarantees provided by the transfer recipient that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the transfer recipient's intellectual property assets and provides assurance to the transfer provider that the license transferred to the third-party beneficiary meets the specifications of the license promised in the binding arrangement.

Usage-Based Royalties

AG81. Notwithstanding the requirements in paragraphs 56–59, a transfer provider shall recognize an expense for a usage-based royalty promised in exchange for a license of intellectual property transferred to a third-party beneficiary only when (or as) the later of the following events occurs:

(a) The subsequent usage occurs; and

(b) The transfer recipient's performance obligation to which some or all of the usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG82. The requirement for a usage-based royalty in paragraph AG81 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the transfer provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG83. When the requirement in paragraph AG82 is met, an expense for a usage-based royalty shall be recognized wholly in accordance with paragraph AG81. When the requirement in paragraph AG82 is not met, the requirements on variable consideration in paragraphs 51–59 apply to the sales-based or usage-based royalty.

Bill-and-Hold Arrangements

AG84. A bill-and-hold arrangement is a binding arrangement under which a transfer recipient bills a transfer provider for a product, but the transfer recipient retains physical possession of the product until it is transferred to the third-party beneficiary at a point in time in the future.

AG85. A transfer provider shall determine when the transfer recipient has satisfied its performance obligation to transfer a product to a third-party beneficiary by evaluating when the third-party beneficiary obtains control of that product (see paragraph 39). For some binding arrangements, control is transferred either when the product is delivered to the third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a third-party beneficiary may obtain control of a product even though that product remains in the transfer recipient's physical possession. In that case, the third-party beneficiary has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the transfer recipient does not control the product. Instead, the transfer recipient provides custodial services to the third-party beneficiary over the third-party beneficiary's asset.

AG86. In addition to applying the requirements in paragraph 39, for a third-party beneficiary to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the transfer provider has requested the arrangement);

(b) The product must be identified separately as belonging to the third-party beneficiary;

(c) The product currently must be ready for physical transfer to the third-party beneficiary; and

(d) The transfer recipient cannot have the ability to use the product or to direct it to another purchaser.

AG87. If a transfer provider recognizes an expense for the purchase of a product on a bill-and-hold basis, the transfer provider shall consider whether the transfer recipient has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 24–32 to which the transfer provider shall allocate a portion of the transaction consideration in accordance with paragraphs 72–85.

Third-Party Beneficiary Acceptance

AG88. In accordance with paragraph 39(e), a third-party beneficiary's acceptance of an asset may indicate that the third-party beneficiary has obtained control of the asset. Third-party beneficiary acceptance clauses may allow the transfer provider to cancel a binding arrangement or require a transfer recipient to take remedial action if a good or service does not meet agreed-upon specifications. A transfer provider shall consider such clauses when evaluating when the third-party beneficiary obtains control of a good or service.

AG89. If a transfer recipient delivers products to a third-party beneficiary for trial or evaluation purposes and the transfer provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the third-party beneficiary until either the third-party beneficiary accepts the product or the trial period lapses.

Transfer Expenses without Performance Obligations (see paragraphs 90–120)

AG90. This [draft] Standard applies the principles in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* to transfer expenses without performance obligations. Where the transfer recipient of a transfer expense without performance obligations is a public sector entity, the transfer recipient will account for the revenue in accordance with [draft] IPSAS X (ED 71). Transfer expenses without performance obligations may arise from binding arrangements that impose present obligations other than performance obligations on the transfer recipient. Transfer expenses without performance obligations may also arise where there is no binding arrangement.

Recognition (see paragraphs 91–101)

AG91. In accordance with paragraph 91, a transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) When the transfer provider has a present obligation to transfer resources to a transfer recipient; and

(b) When the transfer provider ceases to control the resources it has agreed to transfer.

AG92. The point at which a transfer provider has a present obligation to transfer resources to a transfer recipient will depend upon the terms of the binding arrangement and the circumstances of the transfer expense. For example, a transfer provider may enter into a binding arrangement with a university (a transfer recipient), whereby the university undertakes a research project over several years. At the end of the project, the university retains the intellectual property generated by the research project; the binding arrangement is therefore a binding arrangement for a transfer expense without performance obligations, as no goods or services are transferred to a third-party beneficiary. Depending on the terms of the binding arrangement, the transfer provider may have a present obligation to transfer the promised resources:

(a) At the commencement of the research project;

(b) Periodically (i.e., at set dates) throughout the research project;

(c) As key project milestones are achieved; or

(d) At the completion of the research project.

AG93. In determining the point or points at which a transfer provider may have a present obligation to transfer the promised resources, a transfer provider shall consider all relevant facts and circumstances including substance over form, the terms of the binding arrangement and other evidence; and shall consider whether the promised resources are subject to appropriations (see paragraphs AG98–AG102).

AG94. Subject to the requirements of paragraph AG95, where a transfer provider transfers the promised resources before having a present obligation to do so, the transfer provider shall not recognize an asset, but shall recognize an expense in accordance with paragraph 91(b). The transfer provider does not recognize an asset as it does not have an enforceable right to the return of the resources. The binding arrangement may require the transfer recipient to return the resources to the transfer provider in the event of non-compliance with the terms of the binding arrangement. However, until such time as there is a breach of the terms of the binding arrangement, there are no resources that are presently controlled by the transfer provider. Consequently, the transfer provider does not have an asset at the point it transfers the resources, and hence it recognizes an expense.

AG95. A transfer provider usually ceases to control the resources it has agreed to transfer at the point it transfers those resources to the transfer recipient. However, in some circumstances, a transfer provider may retain control of the resources until a later date. For example, a transfer provider may make a prepayment, but be entitled to a refund of the prepayment on demand prior to the point at which the transfer provider has a present obligation to make the payment. In such circumstances, the transfer provider retains control of the resources. Consequently, the transfer provider does not derecognize the resources, nor recognize an expense, prior to the point at which it has a present obligation to transfer those resources. Where cash has been transferred, the transfer provider may reclassify the asset as a prepayment.

AG96. A binding arrangement may require the transfer recipient to return the resources to the transfer provider, either:

(a) In the event of non-compliance with the terms of the binding arrangement; or

(b) Where funds remain unspent at a specified date.

AG97. When such an event occurs, the transfer provider shall determine whether it has an enforceable right to have the resources returned, and whether the return of resources is probable. To the extent that the transfer provider has an enforceable right and the return of resources is probable, the transfer provider shall account for the return of resources as follows:

(a) Where the related expense was recognized in the current period, by recognizing an asset and an adjustment to expense; or

(b) Where the related expense was recognized in a previous period, by recognizing an asset and revenue, except where the transfer provider is instead required to restate amounts in a prior period to correct a prior period error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Transfer Expenses without Performance Obligations Subject to Appropriations

AG98. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a

transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

AG99. In accordance with paragraphs 98–99, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

AG100. In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of the transfer provider;

(b) The exercise of that authority has occurred. In essence, the transfer provider has taken a decision under the approved enabling authority that clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the transfer provider has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the authorization of an appropriation.

AG101. The enabling authority, together with the exercise of that authority, may be sufficient for a transfer provider to conclude that the transfer recipient has an enforceable right to those resources, and that the transfer provider consequently has a present obligation to transfer the resources, prior to the authorization of the appropriation. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer provider recognizes a liability and an expense for future transfers prior to the appropriation being authorized.

AG102. In other cases, the authorization of the appropriation may determine when a transfer provider has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer provider shall not recognize a liability and an expense for the transfer prior to the appropriation being authorized.

Fines

AG103. Fines are defined in IPSAS [X] (ED 71) as economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations. The past event for the recognition of a transfer expense without performance obligations in respect of a fine is the imposition of the fine by a court or other law enforcement body.

Measurement (see paragraphs 102–120)

AG104. In accordance with paragraph 102, where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider shall measure the expense at the carrying amount of the resources transferred. In many cases, the resource transferred will be cash, and the expense will be measured at the amount of the cash transferred. Where the resource transferred is a non-cash asset, the expense will be measured at the carrying amount of the asset transferred. In accordance with paragraph 114, the transfer provider does not revalue

the assets prior to derecognizing them. For example, if a transfer provider transfers inventory to a transfer recipient, it measures the expense at the carrying amount of the inventory transferred, not the fair value of the inventory.

AG105. In accordance with paragraph 103, where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. Where the resources to be transferred to the transfer recipient, for example where the transfer provider has a present obligation to transfer a fixed amount of cash, or a specific non-financial asset, the liability will be measured at the carrying amount of the cash or non-cash asset to be transferred, adjusted, where necessary, for the time value of money in accordance with paragraph 109.

AG106. A transfer expense without performance obligations may include variable costs where, for example, the transfer provider has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. In accordance with paragraph 105, a transfer provider's best estimate of the amount it will incur to settle the liability reflects the transfer provider's assessment of the costs that the transfer recipient is likely to incur.

AG107. When the transfer provider makes its best estimate of the amount it will incur to settle the liability, the transfer provider shall consider all information that is reasonably available to the transfer provider. Where the binding arrangement that establishes a transfer expense without performance obligations that includes variable costs specifies the expected amount of the transfer expense, a transfer provider may use this figure as its best estimate where this is consistent with any other evidence available to the transfer provider. The figure specified in the binding arrangement is most likely to provide a reliable estimate in the early days of the binding arrangement. This may change as the transfer recipient undertakes the activities specified in the binding arrangement, and the transfer provider shall update its estimate as it obtains more recent evidence.

AG108. In rare cases, for example where the binding arrangement either does not specify an expected amount and where additional evidence (such as the costs incurred by the transfer recipient) is not available, the transfer provider may not be able to make a reliable estimate of the liability. In such cases, the recognition criteria for the liability are not met, and no liability or expense are recognized until such time as a reliable estimate can be made. This may be the point at which the transfer provider transfers the promised resources to the transfer recipient.

Disclosure (see paragraphs 127–153)

Disclosure of Disaggregated Expenses

AG109. Paragraph 133 requires a transfer provider to disaggregate expenses from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expenses and cash flows are affected by economic factors. Consequently, the extent to which a transfer provider's expenses are disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the transfer provider's binding arrangements for transfer expenses with performance obligations. Some transfer providers may need to use more than one type of category to meet the objective in paragraph 133 for disaggregating expenses. Other transfer providers may meet the objective by using only one type of category to disaggregate expenses.

AG110. When selecting the type of category (or categories) to use to disaggregate expenses, a transfer provider shall consider how information about the transfer provider's expenses has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraph AG110(a) and (b) and that is used by the transfer provider or users of the transfer provider's financial statements to evaluate the transfer provider's financial performance or make resource allocation decisions.

AG111. Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) Type of good or service (for example, major product lines);

(b) Geographical region (for example, country or region);

(c) Market or type of transfer recipient (for example, government and non-government transfer recipients);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements); and

(f) Timing of transfer of goods or services (for example, transfer expenses for goods or services transferred to third-party beneficiaries at a point in time and transfer expenses for goods or services transferred over time).

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 88 is amended, and paragraph 153N is added. New text is underlined, and deleted text is struck through.

…

Structure and Content

…

Statement of Financial Position

…

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

    (a) **Property, plant, and equipment;**

    (b) **Investment property;**

    (c) **Intangible assets;**

    (d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**

    (e) **Investments accounted for using the equity method;**

    (f) **Inventories;**

    (g) **Recoverables from non-exchange transactions (taxes and transfers);**

    (ga) **Transfer provider's binding arrangement assets;**

    (h) **Receivables from exchange transactions;**

    (i) **Cash and cash equivalents;**

    (j) **Taxes and transfers payable;**

    (ja) **Social benefits liabilities;**

    (jb) **Transfer provider's binding arrangement liabilities;**

    (k) **Payables under exchange transactions;**

    (l) **Provisions;**

    (m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

    (n) **Non-controlling interest, presented within net assets/equity; and**

    (o) **Net assets/equity attributable to owners of the controlling entity.**

…

Effective Date

153N. **Paragraph 88 was amended by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Implementation Guidance

…

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
…		
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Social benefits	(X)	(X)
~~Grants and other transfer payments~~ Transfer expenses	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total Expenses	(X)	(X)

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates

…

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended and paragraph 63H is added. New text is underlined, and deleted text is struck through.

…

Presentation of a Cash Flow Statement

…

Operating Activities

…

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

    (a) Cash receipts from taxes, levies, and fines;

    (b) Cash receipts from charges for goods and services provided by the entity;

    (c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;

    (d) Cash receipts from royalties, fees, commissions, and other revenue;

    (da) Cash payments to beneficiaries of social benefit schemes;

    (db) Cash payments for transfer expenses;

    (e) Cash payments to other public sector entities to finance their operations (not including loans);

    (f) Cash payments to suppliers for goods and services;

    (g) Cash payments to and on behalf of employees;

    (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

    (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

    (j) Cash receipts and payments from contracts held for dealing or trading purposes;

    (k) Cash receipts or payments from discontinuing operations; and

    (l) Cash receipts or payments in relation to litigation settlements.

    Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 83A of IPSAS 17, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

…

Effective Date

63H. **Paragraph 22 was amended by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 51F is added. New text is underlined, and deleted text is struck through.

…

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. …

…

Measurement of Inventories

…

17. **Inventories shall be measured at the lower of cost and current replacement cost where they are held for:**

    (a) **Distribution at no charge (a transfer expense) or for a nominal charge; or**

    (b) **Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge.**

…

Distributing Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. **When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized when the goods are distributed or the related service is**

~~rendered~~ in accordance with [draft] IPSAS [X] (ED 72), *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

…

Effective Date

…

51F. **Paragraphs 11, 17, 43 and 44 were added by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 41A, 43A, 43B and 154H are added. New text is underlined, and deleted text is struck through.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

…

41A. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allow a three year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of [draft] IPSAS [X] (ED 72), *Transfer Expenses.***

…

Recognition and/or Measurement of Transfer Expenses

43A. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis**.

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with [draft] IPSAS [X] (ED 72), *Transfer Expenses*, during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of [draft] IPSAS [X] (ED 72). The transitional provision in paragraph 43A allows a first-time adopter to apply [draft] IPSAS [X] (ED 72) incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without performance obligations in accordance with [draft] IPSAS [X] (ED 72) from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with performance obligations.

	Transitional exemption provided							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
…								
[Draft] IPSAS [X] (ED 72), *Transfer Expenses*			✓ All transfer expenses not recognized under previous basis of accounting	✓ All transfer expenses recognized under previous basis of accounting	✓ To extent that 3-year relief period was adopted for assets and/or liabilities			

…

Effective Date

154H. **Paragraphs 41A, 43A and 43B were added by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

Amendments to IPSAS 42, *Social Benefits*

Paragraph IG2 is amended. New text is underlined, and deleted text is struck through.

…

This guidance accompanies, but is not part of, IPSAS 42

…

Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

[Draft] IPSAS [X] (ED 72) — ~~Non-Exchange Expenses Project~~ — Social Benefits — Other IPSAS/IFRS

Category	~~Grants, Contributions and Other~~ Transfers Expenses	~~Emergency Relief~~	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	~~Grants~~Transfers to other public sector entities ~~Grants~~Transfers to charities	~~Emergency relief Planning and preparation activities~~	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Transactions with Performance Obligations?	Yes and No	~~Non-Exchange~~	No	No	No	Yes	Yes	Yes
Provided as cash transfers to specific individuals/households	Sometimes	~~Sometimes~~	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	~~Sometimes~~	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	No	~~No~~	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	~~No~~	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS X (ED 72), Transfer Expenses.

Objective (paragraph 1)

BC1. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services and transfer expenses accounts for a significant portion of their expenditure.

BC2. Despite the importance of social benefits, collective and individual services and transfer expenses for most governments, until recently there had been little guidance in the IPSASB's literature on how to account for these transactions. The IPSASB undertook a phased program of work to address these transactions, beginning with IPSAS 42, *Social Benefits*, issued in January 2019 and continuing with *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020. [Draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [date], completed this program and filled a significant gap in the IPSASB's literature.

BC3. [Draft] IPSAS [X] (ED 72) establishes requirements for accounting for transfer expenses, and disclosing information about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.

Scope (paragraphs 3–7)

BC4. Prior to [Draft] IPSAS [X] (ED 72) being issued, non-exchange transactions were defined in IPSAS 9, *Revenue from Exchange Transactions*, as follows:

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

BC5. This definition covered a wide range of transactions, including some that were addressed in other Standards. As an example, expenses associated with concessionary loans are addressed in IPSAS 29, *Financial Instruments: Recognition and Measurement*, and its successor Standard, IPSAS 41, *Financial Instruments*. It followed that a future Standard addressing non-exchange expenses would need to clearly set out which transactions would be within its scope and which transactions would be outside its scope.

BC6. The IPSASB issued its Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. The CP discussed various types of non-exchange expenses, including collective services, universally accessible services, and grants, contributions and other transfers, but did not discuss the scope of non-exchange expenses any further.

BC7. The CP did not discuss social benefits, which were being addressed in a separate project. Collective services and universally accessible services are now referred to as collective and individual services, and have been addressed in a separate project. As noted above, the IPSASB has issued final pronouncements addressing these transactions.

BC8. In developing [draft] IPSAS [X] (ED 72), the IPSASB considered the scope of the [draft] Standard, and came to the following conclusions:

(a) The IPSASB noted that respondents to the CP had identified practical difficulties with distinguishing between exchange transactions and non-exchange transactions. The IPSASB also noted that, in part because of these difficulties, the *Revenue* project that the IPSASB was undertaking simultaneously with its non-exchange project was proposing a distinction between transactions based on the presence (or absence) of a performance obligation. This distinction would largely replace the current exchange transaction/non-exchange transaction distinction. The IPSASB considered that it would be appropriate to apply this distinction to expenses as well as revenue. Requiring an entity to determine whether a transaction was an exchange transaction or a non-exchange transaction, prior to determining whether a transaction had performance obligation would introduce a level of complexity that was unwarranted. For these reasons, the IPSASB agreed that the scope of [draft] IPSAS [X] (ED 72) should not be based on the definition of a non-exchange expense.

(b) A 'residual expenses' Standard, addressing any expenses not covered in another Standard, was rejected as this would exceed the IPSASB's intentions when issuing the CP. The IPSASB also considered that including exchange transactions might raise additional issues that would require additional time and resources to resolve, but which were not seen as a priority by the IPSASB's stakeholders.

(c) The IPSASB noted that the main group of transactions discussed in the CP and not addressed by the IPSASB's other Standards or active projects was grants, contributions and other transfers. The IPSASB noted that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks (this definition is discussed further in paragraphs BC11–BC12). Aligning the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*. Consequently, the IPSASB agreed to align the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks.

BC9. Having agreed to base the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks, the IPSASB specifically considered research grants. The IPSASB noted that where the grantee retained the intellectual property resulting from the research, such grants would be covered by the definition of transfers. Where the intellectual property passed to the grantor, such grants would not be covered by the definition of transfers. The IPSASB noted that this was consistent with the approach taken in the statistical reporting frameworks. Consequently, the IPSASB agreed that no specific requirements in respect of research grants were required.

BC10. The IPSASB also noted that contributions from owners and distributions to owners did not meet the definition of transfers, and were consequently outside the scope of [draft] IPSAS [X] (ED 72). This is explained further in paragraph 6 of [draft] IPSAS [X] (ED 72).

Definitions (paragraphs 8–9)

BC11. The *Government Finance Statistics Manual 2014* (GFSM 2014) defines a transfer as follows:

A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.

BC12. The IPSASB noted that this definition does not cover all non-exchange transactions as defined in IPSAS 9 (see the definition in paragraph BC4 above). Specifically, the definition does not cover transactions where one party provides a good or service to another party, and receives a good or service in return, but that good or service is not of approximately equal value. The IPSASB noted that determining what amounted to approximately equal value was one of the difficulties stakeholders had experienced with the definition of non-exchange expenses. Consequently, the IPSASB considered that clarity of the GFSM 2014 definition of transfers outweighed the disadvantages of excluding a small number of non-exchange expenses from the scope of [draft] IPSAS [X] (ED 72).

BC13. Having agreed to use the GFSM 2014 definition of transfers as the basis for the scope of [draft] IPSAS [X] (ED 72), the IPSASB agreed to base its definition of 'transfer expenses' on the GFSM definition. The IPSASB agreed to adopt the term transfer expenses as the term transfers had previously been used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, where the term transfers referred to inflows (i.e., revenue) only. In IPSAS 23, the term transfers excludes taxes, and the IPSASB agreed to exclude taxes from the definition of transfer expenses for consistency.

BC14. [Draft] IPSAS [X] (ED 72) complements [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. Consequently, [draft] IPSAS [X] (ED 72) relies on the definitions in those [draft] Standards where possible (see paragraph 9 of [draft] IPSAS [X] (ED 72)). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in [draft] IPSAS [X] (ED 72):

(a) Stand-alone purchase price;

(b) Transaction consideration;

(c) Transfer provider's binding arrangement asset; and

(d) Transfer provider's binding arrangement liability.

These definitions are based on the definitions of stand-alone price, transaction price, binding arrangement liability and binding arrangement asset in [draft] IPSAS [X] (ED 70).

BC15. The IPSASB also considered the definition of expenses in IPSAS 1, *Presentation of Financial Statements*, and concluded that no changes were required. The IPSASB agreed to include a cross-reference to this definition in [draft] IPSAS [X] (ED 72) (see paragraph 9 of [draft] IPSAS [X] (ED 72)).

Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach) (paragraphs 10–89)

BC16. One of the drivers that led to the IPSASB developing the CP was the issuing of IFRS 15, *Revenue from Contracts with Customers*, by the International Accounting Standards Board (the IASB®). IFRS 15 introduced a performance obligation approach for the recognition of revenue. The IPSASB considered whether to adopt a similar approach in its revenue standards. The IPSASB concluded that an extended version of the approach in IFRS 15 would be appropriate for revenue transactions with performance obligations, for the following reasons:

(a) The approach is consistent with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*);

(b) The approach is consistent with other IPSAS; and

(c) The approach resolves the problem of determining whether a transaction is an exchange transaction or a non-exchange transaction by using a different basis in determining the accounting policy to be followed.

BC17. Consequently, in the CP the IPSASB proposed the adoption of a Public Sector Performance Obligation Approach (PSPOA) for revenue.

BC18. The IPSASB also considered whether a similar approach would be appropriate for the recognition of expenses within the scope of [draft] IPSAS [X] (ED 72), noting that the performance obligations would be those imposed on the transfer recipient. The IPSASB noted that the advantages of adopting the PSPOA for revenue would apply equally to expenses.

BC19. Consequently, the IPSASB included a preliminary view in the CP 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."

BC20. Respondents to the CP were, on the whole, supportive of adopting the PSPOA for expenses, but raised several issues. The IPSASB agreed, therefore, to develop the PSPOA for use in [draft] IPSAS [X] (ED 72), and proceeded to consider the technical issues associated with the PSPOA.

Existence of Asset

BC21. The PSPOA for expenses applies where the transfer provider has entered into a binding arrangement that imposes a performance obligation on the transfer recipient to transfer goods or services to a third-party beneficiary. The IPSASB noted that in some cases, the terms of the binding arrangement would result in the transfer provider having a present obligation to transfer resources to the transfer recipient prior to the transfer recipient having satisfied its performance obligations. If the transfer provider had not transferred the resources, this would give rise to a liability.

BC22. If the transfer provider were to recognize an expense as the transfer recipient satisfied its performance obligations, it follows that the transfer provider should not recognize an expense at the point it recognizes the liability, but a corresponding asset. The IPSASB, therefore, considered the nature of that asset.

BC23. The IPSASB noted that the asset could not be the resources transferred, or the right to have those resources returned, as at the point the liability is recognized, the resources have been transferred.

BC24. The *Conceptual Framework* defines an asset as:

A resource presently controlled by the entity as a result of a past event

BC25. The IPSASB considered two components of this definition – whether there is a resource (and if so, what that resource is); and whether the resource is presently controlled by the transfer provider as a result of a past event.

Resource

BC26. The first component of the definition of an asset is “a resource.” The *Conceptual Framework* defines a resource as “an item with service potential or the ability to generate economic benefits.”

BC27. If the goods or services were to be transferred to the transfer provider, it would clear that there is a right to receive resources, and consequently, the definition of a resource would be met. However, the definition of a transfer expense excludes transactions where the transfer provider receives goods or services.

BC28. In a transfer expense, the transfer provider provides resources to the transfer recipient to deliver goods or services to third-party beneficiaries (service recipients). The IPSASB considered whether the right to have goods or services transferred to the specified third parties satisfies the definition of a resource as “an item with service potential or the ability to generate economic benefits.” The IPSASB concluded that, as the goods or services being transferred will allow the transfer provider to meet its objectives, the right to have goods or services transferred to the specified third parties will satisfy the definition of a resource as that right will be an item with service potential.

Control

BC29. The second component of the definition of an asset is that the resource is “presently controlled by the entity as a result of a past event.”

BC30. The *Conceptual Framework* gives four indicators of control:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict access to the resource;

(c) The means to ensure that the resource is used to achieve its objectives; and

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

BC31. The transfer provider will have an enforceable right under the binding arrangement to have goods or services transferred to a third-party beneficiary. The IPSASB concluded that, as a result of this enforceable right, the transfer provider will have the means to ensure that the resource is used to achieve the transfer provider’s objectives. The IPSASB agreed that means that the transfer provider presently controls the resource.

BC32. In order to meet the definition of an asset, this present control must be as a result of a past event. Both the enforceable right to have the goods or services transferred to a third-party beneficiary (the resource), and the control of that resource arise from the binding arrangement. It follows that the past event is the entering into the binding arrangement.

Conclusion

BC33. Consequently, the IPSASB concluded that, once the transfer provider has entered into the binding arrangement, the transfer provider would presently control a resource as a result of a past event. The item therefore satisfies the definition of an asset.

BC34. The IPSASB agreed that the transfer provider would recognize an asset for the right to have goods or services provided to third-party beneficiaries. The transfer provider would control this asset until the transfer recipient met its performance obligations. At this point, the asset would be

derecognized, and an expense recognized, as the transfer recipient provided the goods or services to the third-party beneficiaries. The IPSASB concluded that this analysis provided the conceptual grounds for applying the PSPOA to some transfer expenses.

BC35. Having agreed that there was a conceptual basis for adopting the PSPOA for expenses, the IPSASB developed the detailed recognition and measurement requirements. In the CP, the IPSASB had expressed the view that "it is important for the approach in a Non-Exchange Expenses standard to mirror the approach adopted for equivalent revenue transactions." Consequently, the IPSASB agreed to take, as the starting point for the PSPOA in [draft] IPSAS [X] (ED 72), the recognition and measurement requirements of [draft] IPSAS [X] (ED 70), amended to fit the transfer provider's perspective, to the extent that this did not conflict with the *Conceptual Framework* or requirements in other IPSAS.

BC36. The PSPOA for revenue adopted in [draft] IPSAS [X] (ED 70) is based on the requirements in IFRS 15. The decisions the IPSASB took in modifying those requirements in [draft] IPSAS [X] (ED 70) are explained in the Basis for Conclusions to [draft] IPSAS [X] (ED 70), and are not repeated here. This Basis for Conclusions explains the decisions taken by the IPSASB in modifying the PSPOA for revenue to form the PSPOA for expenses adopted in [draft] IPSAS [X] (ED 72).

Pervasive Modifications Due to the Scope of [Draft] IPSAS [X] (ED 72)

BC37. In modifying the PSPOA to be suitable for accounting for expenses, the IPSASB identified two pervasive issues that required addressing:

(a) Expense perspective. The requirements in [draft] IPSAS [X] (ED 70) have been modified to reflect the transfer provider's perspective, that is, to reflect a requirement that the transfer provider recognizes an expense when the transfer recipient's performance obligations have been satisfied. In making these modifications, the IPSASB has sought to make it clear that the performance obligations that determine when an expense is recognized are the performance obligations imposed on the transfer recipient in the binding arrangement. The performance obligations imposed on the transfer provider (to transfer resources, usually cash, to the transfer recipient) do not determine when an expense should be recognized under the PSPOA.

(b) Third-party beneficiaries. The scope of [draft] IPSAS [X] (ED 72) is limited to transactions where the transfer provider does not receive any goods or services in return. [Draft] IPSAS [X] (ED 70) does not have this limitation, and therefore applies to transactions where the purchaser pays the supplier and receives goods or services in return. The requirements in [draft] IPSAS [X] (ED 70) have been modified to ensure that in all cases they refer to third-party beneficiaries as the only recipients under the PSPOA.

Other Modifications to the Recognition and Measurement Requirements

BC38. The criteria that must be met for a binding arrangement with a purchaser to be within the scope of [draft] IPSAS [X] (ED 70) have been modified in [draft] IPSAS [X] (ED 72) to provide the criteria for when a transaction should be accounted for as a transfer expense with performance obligations. One of the modifications made by the IPSASB was to require that, in order to use the PSPOA in accounting for transfer expenses, the transfer provider must monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. Without such monitoring, the transfer provider would not have reliable information

about when to recognize a transfer expense. The IPSASB had concerns that a lack of monitoring by the transfer provider could lead to inappropriate delays in the recognition of an expense. The IPSASB therefore agreed that, where the transfer provider did not monitor the satisfaction of the transfer recipient's performance obligations, the transfer provider should account for the transaction as a transfer expense without performance obligations. A transfer expense without performance obligations is recognized at the earlier of the transfer provider transferring the resources, or having a present obligation to do so. The IPSASB considered that this would avoid inappropriate delays in the recognition of an expense.

BC39. Some requirements in [draft] IPSAS [X] (ED 70) are not relevant to the transfer provider, for example the guidance on assessing the probability of collecting the promised consideration, and the guidance on agreements to repurchase transferred assets. Such requirements are omitted from [draft] IPSAS [X] (ED 72). In omitting this guidance, the IPSASB agreed to retain guidance that it considered might be relevant to transfer providers in a limited number of circumstances. An example of the guidance the IPSASB agreed to retain is the guidance on bill-and-hold arrangements, which the IPSASB considered might apply where the transfer recipient was producing vaccines or textbooks, and delivering these to the third-party beneficiaries on demand.

BC40. [Draft] IPSAS [X] (ED 70) includes both input methods and output methods in the guidance on measuring the satisfaction of performance obligations. [Draft] IPSAS [X] (ED 72) emphasizes output methods (from the transfer recipient's perspective). The IPSASB took the view that the transfer provider is unlikely to have the information required to use an input method. However, the IPSASB also agreed not to prohibit input methods, but to direct preparers to the guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the transfer provider has sufficient information about a transfer recipient's inputs to make the use of an input method appropriate. The IPSASB decided to adopt the same approach to other guidance in [draft] IPSAS [X] (ED 70) where it considered it unlikely that the transfer provider would have sufficient information to be able to apply the guidance, for example the estimated cost approach for determining the stand-alone purchase price. The option (to apply the additional guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the transfer provider has sufficient information to do so) is explained in paragraph AG24 of [draft] IPSAS [X] (ED 72).

BC41. In accounting for performance obligations that are satisfied over time, [draft] IPSAS [X] (ED 70) includes guidance on when a transfer recipient's right to payment for work completed to date is sufficient to cover costs plus a reasonable margin. The IPSASB concluded that this guidance is relevant to the transfer recipient, as revenue is only recognized when the right to payment exceeds the transfer recipient's costs. However, for the transfer provider, the only relevant consideration is whether it has a present obligation to pay for the transfer recipient's work completed to date. The IPSASB therefore agreed not to include any guidance on determining whether the right to payment is sufficient to cover costs plus a reasonable margin.

BC42. [Draft] IPSAS [X] (ED 70) measures non-cash consideration at fair value, which is consistent with the measurement approach for non-cash consideration used in other IPSAS. In [draft] IPSAS [X] (ED 72), non-cash consideration is measured at the carrying amount of the asset derecognized. This is consistent with the derecognition provisions in other IPSAS. While this difference may result in the transfer provider and the transfer recipient measuring a transaction at different amounts, the IPSASB considered that the measurement approaches adopted in the two [draft] Standards are consistent with the *Conceptual Framework*.

BC43. [Draft] IPSAS [X] (ED 70) includes guidance on purchaser acceptance. The IPSASB agreed to refer instead to the third-party beneficiary's acceptance, and to redraft the guidance to be relevant to the context of [draft] IPSAS [X] (ED 72).

Complexity of Requirements

BC44. The IPSASB reviewed the requirements for the PSPOA and considered whether these were more complex than was required for accounting for transfer expenses. The IPSASB accepted that in many cases, a binding arrangement for a transfer expense would contain only a single performance obligation and that many of the requirements would therefore not be needed. However, the IPSASB noted that there would be some transactions, for example where a national government provided funding to a provincial government with multiple performance obligations, possibly over multiple accounting periods, where the more detailed requirements would be needed.

BC45. Consequently, the IPSASB concluded that the level of complexity was appropriate for the transactions that might be encountered by some public sector entities. In coming to this conclusion, the IPSASB noted that where a transaction contained a single performance obligation, the application of the requirements would be straightforward.

Transfer Expenses without Performance Obligations (paragraphs 90–120)

BC46. [Draft] IPSAS [X] (ED 71) specifies the requirements for accounting for revenue without performance obligations. The IPSASB considered whether, and to what extent, it would be appropriate to base the requirements for accounting for transfer expenses without performance obligations on the guidance in [draft] IPSAS [X] (ED 71).

BC47. [Draft] IPSAS [X] (ED 71) includes two approaches to recognizing revenue without performance obligations:

(a) A binding arrangement may impose present obligations. In such cases, the transfer recipient recognizes revenue as it complies with the terms of the binding arrangement.

(b) The transfer recipient receives resources without the existence of a binding arrangement. In such cases, the transfer recipient recognizes revenue as it gains control of the resources.

BC48. The IPSASB considered whether, and to what extent, it would be appropriate to base the requirements for accounting for transfer expenses without performance obligations on each of these approaches in turn.

Present Obligations

BC49. The revenue recognition requirements where a binding arrangement imposes present obligations on the transfer recipient are similar to those for revenue with performance obligations. Revenue is only recognized as the transfer recipient complies with its obligations.

BC50. The IPSASB therefore considered these requirements in the light of its conclusions in respect of transfer expenses with performance obligations (see paragraphs BC16–BC34). The IPSASB noted that, under the PSPOA, a transfer provider recognized an expense as the transfer recipient complied with its obligations because, until that point, it had an asset for the right to require the transfer recipient to transfer goods or services to a third-party beneficiary.

BC51. The IPSASB considered whether a similar asset would arise where the binding arrangement imposes a present obligation other than a performance obligation, on the transfer recipient.

BC52. The IPSASB noted that a present obligation other than a performance obligation does not involve the transfer of goods or services to another party. Consequently, the IPSASB doubted whether it would be possible in all circumstances to identify a resource.

BC53. Furthermore, the IPSAS considered that even if it were possible to identify a resource (for example, where a binding arrangement requires a transfer recipient to construct an asset), that resource will never be controlled by the transfer provider. The IPSASB concluded that the definition of an asset is not met, and that no asset should be recognized on the statement of financial position.

BC54. The IPSASB then considered whether the transfer provider's right to have the resources returned if the transfer recipient did not comply with its obligations in the binding arrangement, or had not spent the funds by the agreed date, would constitute an asset for the transfer provider. The IPSASB concluded that, at the point that the resources are transferred, the transfer provider does not have a right of return. The right of return is contingent on the transfer recipient's future non-compliance with the binding arrangement (or future failure to fully utilize the funds), and therefore does not constitute a resource that is presently controlled by the transfer provider. Consequently, the IPSASB concluded that the right to have the resources returned if the transfer recipient did not comply with its obligations in the binding arrangement, or has not spent the funds by the agreed date, does not give rise to an asset for the transfer provider at the point the resources are transferred.

BC55. In the absence of an asset, the recognition of a liability (or the derecognition of another asset) would normally result in the recognition of an expense. However, the *Conceptual Framework* allows the IPSASB to require the recognition of other resources where this is necessary to achieve the objectives of financial reporting. The recognition of other resources could result in an expense being recognized as the transfer recipient complies with its obligations, mirroring the treatment in [draft] IPSAS [X] (ED 71).

BC56. The IPSASB considered whether the recognition of other resources would be necessary to achieve the objectives of financial reporting. The IPSASB concluded that the recognition of an expense best reflected the substance of the transaction for the transfer provider, and that recognizing other resources would therefore not achieve the objectives of financial reporting.

BC57. Consequently, the IPSASB agreed that, where a binding arrangement imposes present obligations other than performance obligations on the transfer recipient, a transfer provider should not recognize an expense as the transfer recipient complies with its obligations. Rather, the IPSASB agreed that the transfer provider should recognize an expense when it has a present obligation to transfer resources (or, if earlier, when it loses control of those resources).

BC58. The IPSASB agreed that, where a binding arrangement imposes present obligations other than performance obligations, it would not be appropriate to base the requirements in [draft] IPSAS [X] (ED 72) on the equivalent requirements for revenue in [draft] IPSAS [X] (ED 71).

Resources Transferred without the Existence of a Binding Arrangement

BC59. In the absence of a binding arrangement, the transfer recipient would recognize revenue when it gained control of the resources, as, in the absence of a binding arrangement, it would have no associated liability.

BC60. The IPSASB considered the application of this principle to the transfer provider, and agreed that, in the absence of a binding arrangement, the transfer provider would not have an asset once control of the resources had been lost. Consequently, the IPSASB agreed that for transfer expenses which did not involve a binding arrangement, it would be appropriate for the requirements in [draft] IPSAS [X] (ED 72) to mirror the equivalent requirements for revenue in [draft] IPSAS [X] (ED 71).

Recognition Principle

BC61. Having concluded that it was not appropriate to mirror the revenue recognition requirements in [draft] IPSAS [X] (ED 71) in all cases, the IPSASB considered the recognition principle that should apply to transfer expenses without performance obligations. The IPSASB noted that, in accordance with the *Conceptual Framework*, an expense would be recognized either when a transfer provider recognized a liability without recognizing a corresponding asset, or when it derecognized an asset. The IPSASB concluded that this reflected the substance of transfer expenses without performance obligations, and agreed the following recognition principle:

A transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) *When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and*

(b) *When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the transfer provider derecognizes the resources it ceases to control in accordance with other Standards.*

Specific Recognition Issues

BC62. [Draft] IPSAS [X] (ED 71) contains guidance on accounting for revenue from debt forgiveness. The IPSASB reviewed this guidance and concluded that similar guidance should be included in [draft] IPSAS [X] (ED 72), covering the recognition of an expense (by the transfer provider) when debt owed by a transfer recipient to a transfer provider is forgiven. The IPSASB noted that the derecognition of the debt should be in accordance with IPSAS 41.

BC63. The IPSASB noted that some binding arrangements may require a transfer provider to make a series of transfers, for example one transfer per year over a three-year period. The IPSASB considered when a present obligation to make each transfer would arise, and concluded that this would be dependent on the nature of the binding arrangement. The IPSASB concluded that a transfer provider should apply the recognition principle to each transfer of resources to determine whether an expense is to be recognized.

BC64. The IPSASB noted that in some jurisdictions, a binding arrangement for a transfer expense without performance obligations might be made subject to the authorization of the related appropriation. The IPSASB considered whether such a limitation should affect the recognition of an expense. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the transfer provider should not recognize an expense prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation that future transfers were subject to the appropriation being authorized has substance.

BC65. [Draft] IPSAS [X] (ED 71) contains guidance on accounting for revenue from taxation. The IPSASB noted that taxes are excluded from the definition of transfers in [draft] IPSAS [X] (ED 71) and the definition of transfer expenses in [draft] IPSAS [X] (ED 72). Consequently, the IPSASB agreed not to include guidance on taxes paid and payable in [draft] IPSAS [X] (ED 72).

Measurement

BC66. In a transfer expense, the transfer provider gives up resources. The IPSASB agreed that the expense (and any liability to be recognized) should be measured at the carrying amount of the resources given up, as this is consistent with the derecognition requirements in other IPSAS. The IPSASB agreed that this amount should be adjusted for estimates of variable cost and for the time value of money where appropriate.

BC67. In developing the guidance on subsequent measurement, the IPSASB agreed to extend the application of this guidance to payables arising out of the operation of legislation or regulation that do not meet the definition of a transfer expense. Most payables arising out of the operation of legislation or regulation will be within the scope of [draft] IPSAS [X] (ED 72). However, the IPSASB considered it important to ensure that appropriate guidance on subsequent measurement was available for all such payables. Because payables arising out of the operation of legislation or regulation do not arise from binding arrangements, they are outside the scope of IPSAS 41, and subsequent measurement of such payables is not addressed in other Standards; for example, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, only addresses the subsequent measurement of provisions, not payables.

Presentation and Disclosure (paragraphs 121–153)

BC68. The IPSASB developed the presentation and disclosure requirements in [draft] IPSAS [X] (ED 72) by reviewing the equivalent requirements in [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71).

BC69. In carrying out this review, the IPSASB sought to ensure that the presentation and disclosure requirements would provide useful information for users of the financial statements, while avoiding information overload or excessive costs for preparers. A key factor in the review was the context of [draft] IPSAS [X] (ED 72); the IPSASB considered that not all the information that was needed to assess the performance of a transfer recipient was necessary in assessing the performance of a transfer provider. For this reason, the IPSASB agreed not to include disclosure requirements for the disaggregation of expenses and the detailed information on binding arrangement balances.

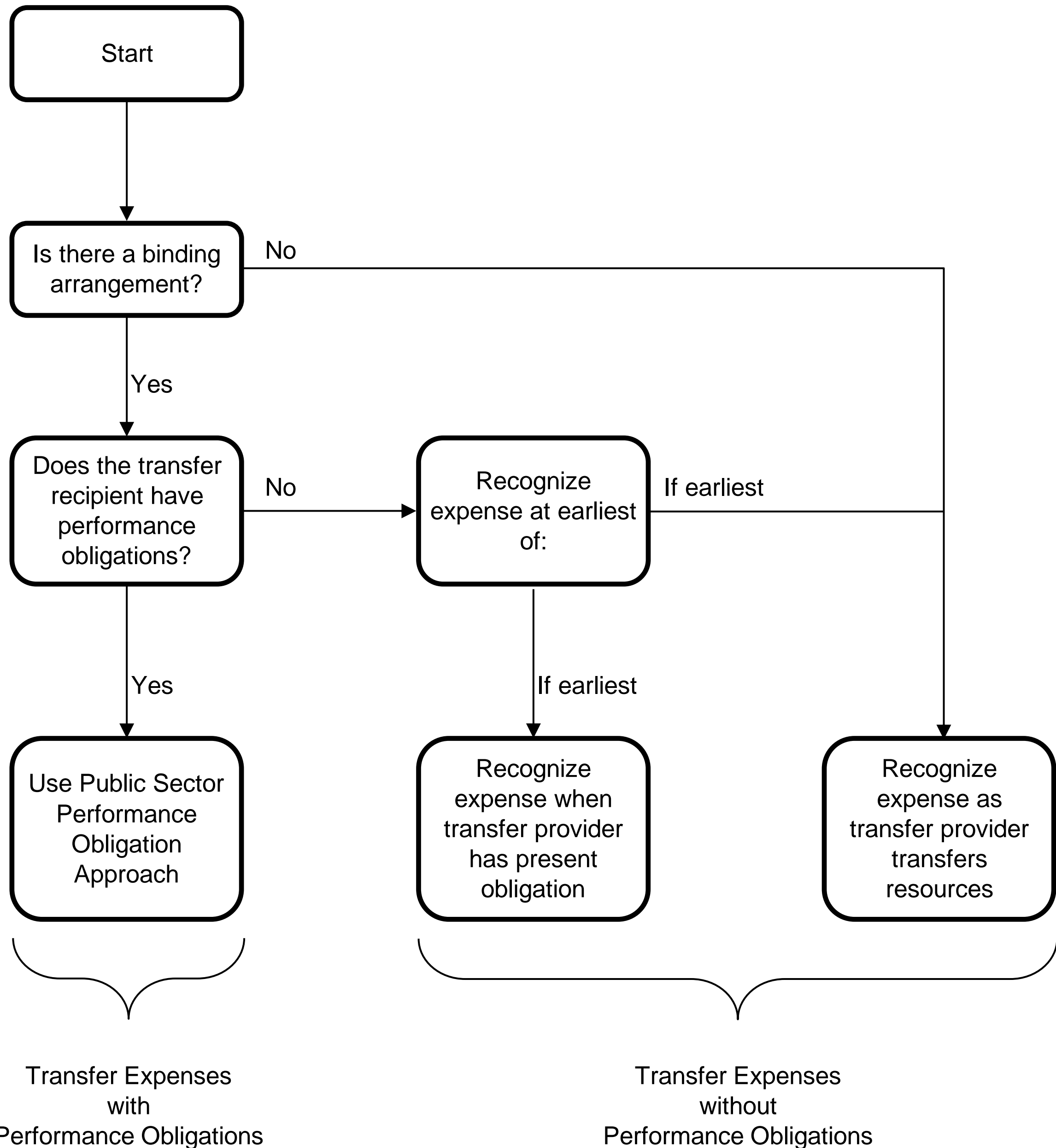
BC70. The IPSASB also considered whether it would be appropriate to require a transfer provider to disclose how the transfer of goods and services to third-party beneficiaries enables the transfer provider to meet its service objectives. The IPSASB concluded that such information was more suitable for reporting service performance information (see RPG 3, *Reporting Service Performance Information*).

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 72)

Accounting for Transfer Expenses

IG1. The following diagram summarizes the arrangements for accounting for transfer expenses.



IG2. [Draft] IPSAS [X] (ED 72) complements [Draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and [Draft] IPSAS [X] (ED 72), *Revenue without Performance Obligations*. The following table illustrates which transactions are within the recognition requirements of each [draft] Standard.

Description	Revenue with Performance Obligation [Draft] IPSAS [X] (ED 70)	Revenue without Performance Obligations [Draft] IPSAS [X] (ED 71)			Transfer Expenses [Draft] IPSAS [X] (ED 72)			Outside the scope of Transfer Expenses [Draft] IPSAS [X] (ED 72)
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B to undertake specified activities or incur specified expenditure		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 72), Transfer Expenses*. They illustrate aspects of IPSAS [X] (ED 72) but are not intended to provide interpretive guidance.*

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in [draft] IPSAS [X] (ED 72) to particular aspects of a transfer expense on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 72).

Scope

IE2. Example 1–Example 3 illustrate the requirements in paragraphs 3–7 and AG4–AG5 of [draft] IPSAS [X] (ED 72) on the determination of whether a transaction is within the scope of [draft] IPSAS [X] (ED 72). Example 3 illustrates the requirement in paragraph 7 regarding transactions with some components that are within the scope of [draft] IPSAS [X] (ED 72) and some components that are within the scope of other Standards.

Example 1 Transaction Where the Other Party Provides Goods and Services

IE3. An international organization enters into a binding arrangement to purchase a vehicle from a motor dealer for CU30,000.[4] Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A—Vehicle is Provided to the International Organization

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the international organization.

IE5. The binding arrangement does not give rise to a transfer expense, as the international organization receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The international organization applies IPSAS 17, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle.

Case B— Vehicle is Provided to a National Government

IE6. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government.

IE7. The binding arrangement gives rise to a transfer expense as the international organization transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. Rather, the vehicle and maintenance services are transferred to the national government (the third-party beneficiary). The international government (the transfer provider) applies [draft] IPSAS [X] (ED 72) in accounting for the binding arrangement. Because the binding

[4] In these examples monetary amounts are denominated in 'currency units' (CU)

arrangement requires the dealer to transfer goods and services to a third-party beneficiary, the international organization accounts for the binding arrangement as a transfer expense with performance obligations (see paragraphs 10–89).

Example 2 Research Grants

IE8. A national government enters into a binding arrangement with a research university whereby the national government will provide the research university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

Case A—National Government Controls Research

IE9. The binding arrangement includes a requirement that the research university will transfer the results of the research to the national government, which will own the intellectual property in the research, and any patents arising out of the research.

IE10. The binding arrangement does not give rise to a transfer expense, as the national government receives the intellectual property in the research in return for providing the research grant. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

Case B—Research University Controls Research

IE11. The binding arrangement does not require the research university to transfer the results of the research to the national government. Rather, the research university will retain control of the intellectual property in the research, and any patents arising out of the research.

IE12. The binding arrangement gives rise to a transfer expense as the national government transfers the research grant to the research university without directly receiving any goods or services in return. The national government (the transfer provider) applies [draft] IPSAS [X] (ED 72) in accounting for the binding arrangement. Because the binding arrangement does not require the research university to transfer any goods or services to a third-party beneficiary, the national government accounts for the binding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Example 3 Transaction with Components Within the Scope of Other IPSAS

IE13. A local government enters into a binding arrangement to purchase two vehicles from a motor dealer for CU40,000. One vehicle is to be transferred to the local government; the other vehicle is to be transferred to a not-for-profit organization.

IE14. The transfer of the vehicle to the not-for-profit organization is a transfer expense, as the local government transfers part of the consideration to the dealer without directly receiving any goods or services in return. The transfer of the vehicle to the local government is not a transfer expense, as the local government receives the vehicle in return for part of the consideration. The local government applies IPSAS 17 in accounting for the purchase of the vehicle it receives.

IE15. Paragraph 7(a) of [draft] IPSAS [X] (ED 72) requires an entity to first apply the separation and/or measurement requirements in other Standards if those other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement. IPSAS 17 does not specify how to separate and/or initially measure one or more parts of the binding arrangement. Consequently, the local government applies the requirements in [draft] IPSAS [X] (ED 72) to

separate and/or initially measure the two parts of the binding arrangement, in accordance with paragraph 7(b) of [draft] IPSAS [X] (ED 72).

Assessing Whether a Transfer Expense Includes a Performance Obligation

IE16. Paragraph 10 of [draft] IPSAS [X] (ED 72) requires a transfer provider to account for transfer expenses with performance obligations using the public sector performance obligation approach. Example 4 provides guidance on determining whether a transfer expense includes a performance obligation.

Example 4 Government Funding of Employment Program

Case A—No Performance Obligations, Specified Time Period, or Reporting to the Government

IE17. A regional government (the transfer provider) provides funding of CU5 million to a social development entity (the transfer recipient) to fund the social development entity's employment programs. The funding agreement contains a general requirement for the social development entity to spend the entire CU5 million on programs with the goal of improving the unemployment rate in the region. However, the agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the regional government will receive or verify information on how the funds were spent.

IE18. The regional government concludes that the funding agreement is not a binding arrangement, as it does not impose obligations on the transfer recipient; the funding arrangement does not require the social development entity to transfer specific goods or services to third-party beneficiaries. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Case B—Specified Time Period to Spend Funds

IE19. The same facts as in Case A apply to Case B, except that the agreement now specifies that the social development entity is required to spend the funds within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not result in performance obligations, as the agreement still does not require the transfer of distinct goods or services to third-party beneficiaries—i.e., the social development entity has complete discretion over how and when within the five-year period to spend the funds. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Case C—Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE20. The same facts as in Case B apply to Case C, except that the agreement now also specifies how the social development entity is to report its spending to the regional government. For this agreement, although the social development entity now must spend the CU5 million within five years and report the details of its spending to the regional government, the agreement still does not have performance obligations to be enforced, as the social development entity is not required to transfer any distinct goods or services to third-party beneficiaries under the general requirement to spend the funds on employment programs. In other words, the social development entity continues to have full discretion over how to use the funds, so long as the funds are spent on activities that could reasonably relate to improving the unemployment rate in the region.

Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Case D—Arrangement Includes a Requirement to Deliver Training Courses

IE21. The same facts as in Case C apply to Case D, except that the agreement now requires the social development entity to provide specified training courses to those individuals who have been unemployed for more than 12 months. The regional government monitors and enforces the provision of the training courses. The social development entity continues to have full discretion over how to use the remaining funds. The requirement to provide specified training courses to those individuals who have been unemployed for more than 12 months means that the arrangement now confers enforceable rights and obligations on both parties, and this requirement is, therefore, a performance obligation. The social development entity is required to transfer services to third-party beneficiaries, and this requirement is enforceable by the regional government. The remainder of the agreement does not include performance obligations, as discussed in Case C. Consequently, the regional government accounts for the performance obligation to provide training courses as a transfer expense with performance obligations (see paragraphs 10–89), and accounts for the remainder of the funding arrangement as a transfer expense without performance obligations (see paragraphs 90–120).

Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach)

IE22. Example 5–Example 29 illustrate different aspects of the requirements in respect of the public sector performance obligation approach.

Modifications of a Binding Arrangement (Step 1)

IE23. Example 5–Example 9 illustrate the requirements in paragraphs 20–23 of [draft] IPSAS [X] (ED 72) on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 24–32 of [draft] IPSAS [X] (ED 72) on identifying transfer recipient's performance obligations (Example 7 and Example 8);

(b) Paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration (Example 6, Example 8 and Example 9);

(c) Paragraphs 86–89 of [draft] IPSAS [X] (ED 72) on changes in the transaction consideration (Example 6).

Example 5 Modification of a Binding Arrangement for Goods

IE24. An intergovernmental organization (the Organization, which is the transfer provider) enters into a binding arrangement to pay CU12 million to a not-for-profit entity (the Charity, which is the transfer recipient) to provide 1.2 million textbooks (i.e., CU10 per product) to a national government (the third-party beneficiary). The products are transferred to the government over a six-month period. The Charity transfers control of each book at a point in time. After the Charity has transferred control of 600,000 books to the government, the binding arrangement is modified to require the delivery of an additional 300,000 books (a total of 1.5 million identical books) to the government. The additional 300,000 books were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Purchase Price

IE25. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 books is an additional CU2.85 million or CU9.5 per product. The pricing for the additional books reflects the stand-alone purchase price of the books at the time of the modification to a binding arrangement and the additional books are distinct (in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72)) from the original books.

IE26. In accordance with paragraph 22 of [draft] IPSAS [X] (ED 72), the modification to a binding arrangement for the additional 300,000 books is, in effect, a new and separate binding arrangement for future books that does not affect the accounting for the existing binding arrangement. The Organization recognizes an expense of CU10 per book for the 1.2 million books in the original binding arrangement and CU9.5 per book for the 300,000 books in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Purchase Price

IE27. During the process of negotiating the purchase of an additional 300,000 books, the parties initially agree on a price of CU8.0 per book. However, the government and the Organization discover that the initial 600,000 books provided by the Charity contained minor misprints. The Charity promises a partial credit of CU1.5 per book to compensate the Organization for the poor quality of those books. The Charity and the Organization agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 books) into the amount that the Charity will require for the additional 300,000 books. Consequently, the modification to a binding arrangement specifies that the price of the additional 300,000 books is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 books of CU2.4 million, or CU8.0 per book, less the credit of CU900,000.

IE28. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of the expense for the initial 600,000 books transferred. In accounting for the transfer of the additional 300,000 books, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone purchase price of the additional books. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 22 of [draft] IPSAS [X] (ED 72) to be accounted for as a separate binding arrangement. Because the remaining books to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 23(a) of [draft] IPSAS [X] (ED 72) and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE29. Consequently, the amount recognized as an expense for each of the remaining books is a blended price of CU9.33 {[(CU10 × 600,000 books not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 books to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining books}.

Example 6 Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE30. On July 1, 20X0, the Department of Defense (the Department, the transfer provider) enters into a binding arrangement with a supplier (the transfer recipient) to transfer two distinct used military products, light-armored vehicles and spare parts, to a state government (the third-party beneficiary). The light-armored vehicles transfer to the state government at the inception of the binding arrangement and spare parts transfer on March 31, 20X1. The consideration promised by

the Department includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction consideration because it concludes that it is probable that a significant reversal in the cumulative expenses recognized will not occur when the uncertainty is resolved.

IE31. The transaction consideration of CU1.2 million is allocated equally to the transfer recipient's performance obligation for the light-armored vehicles and the transfer recipient's performance obligation for spare parts. This is because both products have the same stand-alone purchase prices and the variable consideration does not meet the criteria in paragraph 84 of [draft] IPSAS [X] (ED 72) that require allocation of the variable consideration to one but not both of the transfer recipient's performance obligations.

IE32. When the light-armored vehicles transfer to the state government at the inception of the binding arrangement, the Department recognizes an expense of CU600,000.

IE33. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to the state government on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone purchase price of the ammunition. The stand-alone purchase price of the ammunition is the same as the stand-alone purchase prices of the light-armored vehicle and spare parts.

IE34. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which the supplier had transferred to the state government before the modification, and the promised consideration for the ammunition does not represent its stand-alone purchase price. Consequently, in accordance with paragraph 23(a) of [draft] IPSAS [X] (ED 72), the consideration to be allocated to the remaining transfer recipient's performance obligations comprises the consideration that had been allocated to the transfer recipient's performance obligation for spare parts (which is measured at an allocated transaction consideration amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction consideration for the modified binding arrangement is CU900,000 and that amount is allocated equally to the transfer recipient's performance obligation for spare parts and the transfer recipient's performance obligation for ammunition (i.e., CU450,000 is allocated to each transfer recipient's performance obligation).

IE35. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration which it expects to be obligated to pay to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 23(a) of [draft] IPSAS [X] (ED 72), the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 89 of [draft] IPSAS [X] (ED 72), the change in the transaction consideration is allocated to the transfer recipient's performance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes an expense of CU20,000 for

the light-armored vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to the purchaser before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining transfer recipient's performance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 23(a) of [draft] IPSAS [X] (ED 72) if that amount of variable consideration had been estimated and included in the transaction consideration at the time of the modification of a binding arrangement.

IE36. The Department then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the transfer recipient's performance obligations for spare parts and ammunition. This is because the products have the same stand-alone purchase prices and the variable consideration does not meet the criteria in paragraph 84 that require allocation of the variable consideration to one but not both of the transfer recipient's performance obligations. Consequently, the amount of the transaction consideration allocated to the transfer recipient's performance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE37. On March 31, 20X1, the spare parts are transferred by the supplier to the state government and the Department recognizes an expense of CU460,000. On June 30, 20X1, the ammunition is transferred by the supplier to the state government and the Department recognizes an expense of CU460,000.

Example 7 Modification of a Binding Arrangement for Services

IE38. The Department of Education (the Department, the transfer provider) enters into a three-year binding arrangement with a government shared facilities management services agency (the Agency, the transfer recipient) for the Agency to provide regular maintenance services to schools (the third-party beneficiaries) on a weekly basis. The Department promises to pay CU10 million per year. The stand-alone purchase price of the maintenance services at the inception of the binding arrangement is also CU10 million per year. The Department recognizes expenses of CU10 million per year during the first two years of the Agency providing services. At the end of the second year, the binding arrangement is modified and the fee for the third year is reduced, due to budget cuts at the Department, to CU8 million. In addition, the Department and the Agency agree to extend the binding arrangement for three additional years for consideration of CU20 million payable in three equal annual instalments of CU6,666,667 at the beginning of years 4, 5 and 6. After the modification, the binding arrangement has four years remaining in exchange for total consideration of CU28 million. The stand-alone purchase price of the services at the beginning of the third year is CU8 million per year. The Department's stand-alone purchase price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone purchase price of the multi-year binding arrangement (i.e., the stand-alone purchase price is 4 years × CU8 million per year = CU32 million).

IE39. At the inception of the binding arrangement, the Department assesses that each week of maintenance service is distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). Notwithstanding that each week of maintenance service is distinct, the Department accounts for the binding arrangement for maintenance services as a single performance obligation in accordance with paragraph 24(b) of [draft] IPSAS [X] (ED 72). This is because the weekly maintenance services are a series of distinct services that are substantially the same and have

the same pattern of transfer to the schools (the services are performed for the schools over time and use the same method to measure progress—that is, a time-based measure of progress).

IE40. At the date of the modification, the Department assesses the remaining services to be provided to the schools and concludes that they are distinct. However, the amount of remaining consideration to be paid (CU28 million) does not reflect the stand-alone purchase price of the services to be provided (CU32 million).

IE41. Consequently, the Department accounts for the modification in accordance with paragraph 23(a) of [draft] IPSAS [X] (ED 72) as a termination of the original binding arrangement and the creation of a new binding arrangement with consideration of CU28 million for four years of maintenance service. The Department recognizes expenses of CU7 million per year (CU28 million ÷ 4 years) as the maintenance services are provided over the remaining four years.

Example 8 Modification Resulting in a Cumulative Catch-up Adjustment to Expenses

IE42. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million and a bonus of CU200,000 if the building is completed within 24 months. Housing accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph 36(b) of [draft] IPSAS [X] (ED 72) because the Association controls the building during construction.

IE43. At the inception of the binding arrangement, Housing excludes the CU200,000 bonus from the transaction consideration because it cannot conclude that it is probable that a significant reversal in the amount of cumulative expenses recognized will not occur. Completion of the building is highly susceptible to factors outside the Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE44. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards complete satisfaction of the transfer recipient's performance obligation. By the end of the first year, Housing assesses that Public Works has satisfied 60 per cent of its performance obligation on the basis of the quantity surveyor's report. Housing reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 56–58 of [draft] IPSAS [X] (ED 72). Consequently, the expenses recognized for the first year are CU600,000 (fixed consideration of CU1 million x 60%).

IE45. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration increases by CU150,000. Total potential consideration after the modification is CU1,350,000 (CU1,150,000 fixed consideration + CU200,000 completion bonus). In addition, the allowable time for achieving the CU200,000 bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Housing concludes that it is probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 56 of [draft] IPSAS [X] (ED 72) and includes the

CU200,000 in the transaction consideration. In assessing the modification to a binding arrangement, Housing evaluates paragraph 29(b) of [draft] IPSAS [X] (ED 72) and concludes (on the basis of the factors in paragraph 31 of [draft] IPSAS [X] (ED 72)) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single performance obligation.

IE46. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 23(b) of [draft] IPSAS [X] (ED 72)). Housing updates its measure of progress and estimates that Public Works has satisfied 52.9 per cent of its modified performance obligation, based on an updated quantity surveyor's report. Housing recognizes additional expenses of CU114,150 [(52.9 per cent complete × CU1,350,000 modified transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Example 9 Unapproved Change in Scope and Price

IE47. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct an office building for a Not-for-Profit Organization (the Organization, the third-party beneficiary) on land owned by the Organization. The binding arrangement states that Public Works will complete the building within one year of inception of the binding arrangement. However, Public Works was not able to complete the building until 15 months after inception of the binding arrangement because of storm damage to the building that occurred part way through the construction. The binding arrangement specifically identifies any delay (including force majeure) in Public Works' delivery of the building to the Organization as an event that entitles Housing to compensation that is equal to actual costs incurred in providing alternative office accommodation to the Organization as a direct result of the delay. Housing is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the binding arrangement and prepares a claim. Public Works initially disagrees with the claim.

IE48. Housing assesses the legal basis of the claim and determines, on the basis of the underlying terms of the binding arrangement, that it has enforceable rights. Consequently, it accounts for the claim as a modification to a binding arrangement in accordance with paragraphs 20–23 of [draft] IPSAS [X] (ED 72). The modification does not result in any additional goods or services being provided to the Organization. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, Housing accounts for the modification in accordance with paragraph 23(b) of [draft] IPSAS [X] (ED 72) by updating the transaction consideration and the measure of progress towards complete satisfaction of the performance obligation. Housing considers the constraint on estimates of variable consideration in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) when estimating the transaction price.

Identifying Performance Obligations (Step 2)

IE49. Example 10 and Example 11 illustrate the requirements in paragraphs 24–32 of IPSAS [X] on identifying performance obligations.

Example 10 Goods and Services are not Distinct

Case A—Significant Integration Service

IE50. The Department of Health (the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to build a hospital for a Provincial Government (the Province, the third-party beneficiary). Public Works is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE51. The promised goods and services are capable of being distinct in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72). That is, the Province can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Province could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE52. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72) (on the basis of the factors in paragraph 31 of [draft] IPSAS [X] (ED 72)). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE53. Because both criteria in paragraph 29 of [draft] IPSAS [X] are not met, the goods and services are not distinct. The Department of Health accounts for all of the goods and services in the binding arrangement as a single performance obligation.

Case B—Significant Integration Service

IE54. An international organization (the Organization, the transfer provider) enters into a binding arrangement with the Department of Research Sciences (the Department, the transfer recipient) that will result in the Department delivering multiple units of highly complex, specialized road trains to a National Government (the Government, the third-party beneficiary). The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the Government, based on a custom design that is owned by the Organization and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE55. The Organization assesses the promises in the binding arrangement and determines that each of the promised train carts is capable of being distinct in accordance with paragraph 29(a) of [draft] IPSAS [X] (ED 72) because the local government can generate economic benefits or service potential from each train segment on its own. This is because each train cart can function independently of the other train carts.

IE56. The Organization observes that the nature of the Department's promise is to establish and provide a service of producing the full complement of train carts for which the Organization has entered into a binding arrangement in accordance with the Organization's specifications. The Organization considers that the Department is responsible for overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output) and, therefore, the train carts and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 29(b) and paragraph 31 of [draft] IPSAS [X] (ED 72). In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Organization. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the train carts has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is not met, the goods and services that will be provided by the Department are not separately identifiable and, therefore, are not distinct. The Organization accounts for all of the goods and services promised by the Department in the binding arrangement as a single performance obligation.

Example 11 Determining whether Goods or Services are Distinct

Case A—Distinct Goods or Services

IE57. A state government office (State Government, the transfer provider) enters into a binding arrangement with a government shared IT services agency (the Agency, the transfer recipient) for the Agency to transfer software licenses, perform installation services and provide unspecified software updates and technical support (online and telephone) to public sector universities (the Universities, the third-party beneficiaries) for a two-year period. The Agency provides the licenses, installation services and technical support separately. The installation service includes changing the web screen for each type of user (for example, teaching, marketing and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE58. The State Government assesses the goods and services promised by the Agency to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The State Government observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The Universities can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the State Government concludes that the Universities can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is met.

IE59. The State Government also considers the principle and the factors in paragraph 31 of [draft] IPSAS [X] (ED 72) and determines that the Agency's promise to transfer each good and service to the Universities is separately identifiable from each of the other promises (thus the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is met). In reaching this determination, the State

Government considers that, although the Agency integrates the software into the Universities' systems, the installation services do not significantly affect the Universities' ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the Universities' ability to use and benefit or receive service potential from the software license during the license period. The State Government further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the State Government concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to fulfill its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE60. On the basis of this assessment, the State Government identifies four performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The software licenses;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE61. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each of the Agency's performance obligations for the installation services, software updates and technical support are satisfied at a point in time or over time. The State Government also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG75 of [draft] IPSAS [X] (ED 72) (see Example 26 in paragraphs IE147–IE148).

Case B—Significant Customization

IE62. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation services, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the Universities. The customized installation service can be provided by other entities.

IE63. The State Government assesses the goods and services promised by the Agency to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The State Government first assesses whether the criterion in paragraph 29(a) has been met. For the same reasons as in Case A, the State Government determines that the software licenses, installations, software updates and technical support each meet that criterion. The State Government next assesses whether the criterion in paragraph 29(b) has been met by evaluating the principle and the factors in paragraph 31 of [draft] IPSAS [X] (ED 72). The State Government observes that the terms of the binding arrangement result in a promise by the Agency to provide a significant service of integrating the licensed software into the existing software systems by performing customized installation services as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation services as inputs to produce the combined output (i.e., functional and integrated software systems) specified in the binding arrangement (see paragraph 31(a) of [draft] IPSAS [X] (ED 72)). The software is

significantly modified and customized by the service (see paragraph 31(b) of [draft] IPSAS [X] (ED 72)). Consequently, the State Government determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is not met. Thus, the software licenses and the customized installation services are not distinct.

IE64. On the basis of the same analysis as in Case A, the State Government concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE65. On the basis of this assessment, the State Government identifies three performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) Software customization (which comprises the licenses for the software and the customized installation services);

(b) Software updates; and

(c) Technical support.

IE66. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each of the Agency's performance obligations is satisfied at a point in time or over time.

Case C—Promises are Separately Identifiable (Installation)

IE67. A state government office (State Government, the transfer provider) enters into a binding arrangement with a shared IT services agency (the Agency, the transfer recipient) for the Agency to provide a piece of equipment and installation services to a public sector university (the University, the third-party beneficiary). The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE68. The State Government identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The State Government assesses the criteria in paragraph 29 of [draft] IPSAS [X] (ED 72) to determine whether each promised good or service is distinct. The State Government determines that the equipment and the installation each meet the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72). The University can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The University also can generate economic benefits or service potential from the installation services together with other resources that the University will already have obtained from the Agency (i.e., the equipment).

IE69. The State Government further determines that the Agency's promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72)). The State Government considers the principle and the factors in paragraph 31 of [draft] IPSAS [X] (ED 72) in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 31 of [draft] IPSAS [X] (ED 72) contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to fulfill its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the University can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to fulfill its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE70. On the basis of this assessment, the State Government identifies two performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) Installation services.

IE71. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE72. Assume the same facts as in Case C, except that the State Government is required to ensure the University uses the Agency's installation services in the binding arrangement.

IE73. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to ensure the University uses the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72)) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable, i.e., they each meet the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72). The State Government's analysis in this regard is consistent with that in Case C.

Case E—Promises are Separately Identifiable (Consumables)

IE74. A state government office (State Government, the transfer provider) enters into a binding arrangement with a shared IT services agency (the Agency, the transfer recipient) for the Agency to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) to a public sector university (the University, the third-party beneficiary) and to provide specialized consumables to the University for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE75. The State Government determines that the University can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 30 of [draft] IPSAS [X] (ED 72), because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The University can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement together with the delivered equipment that is transferred to the University initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 29(a) of [draft] IPSAS [X] (ED 72).

IE76. The State Government determines that the Agency's promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 29(b) of [draft] IPSAS [X] (ED 72). In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the State Government considers that the Agency is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the State Government concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the University can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to fulfill each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to fulfill its promise to transfer the equipment even if the State Government did not purchase any consumables for the University and would be able to fulfill its promise to provide the consumables, even if the State Government acquired the equipment for the University separately.

IE77. On the basis of this assessment, the State Government identifies two performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) The consumables.

IE78. The State Government applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether each performance obligation is satisfied at a point in time or over time.

Performance Obligations Satisfied Over Time (Step 5)

IE79. Example 12–Example 14 illustrate the requirements in paragraphs 36–38 and AG40–AG41 of IPSAS [X] (ED 72) on performance obligations satisfied over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 36(a) and AG40–AG41 of IPSAS [X] (ED 72) on when a third-party beneficiary simultaneously receives and consumes the benefits provided by the transfer recipient's performance as the transfer recipient performs (Example 12 and Example 13); and

(b) Paragraphs 36(c), 37–38 and AG43–AG49 of IPSAS [X] (ED 72) on a transfer recipient's performance that does not create an asset with an alternative use and a transfer recipient's enforceable right to payment for performance completed to date (Example 13 and Example 14).

Example 12 Third-Party Beneficiary Simultaneously Receives and Consumes the Economic Benefits or Service Potential

IE80. A local government's Department of Education (the Department, the transfer provider) enters into a binding arrangement with a public payroll service center (the Payroll Center, the transfer recipient) for the Payroll Center to provide monthly payroll processing services to the schools in the local government area (the Schools, the third-party beneficiaries) for one year.

IE81. The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph 24(b) of [draft] IPSAS [X] (ED 72). The performance obligation is satisfied over time in accordance with paragraph 36(a) of [draft] IPSAS [X] (ED 72) because the Schools simultaneously receive and consume the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Schools simultaneously receive and consume the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. (The Department disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The Department recognizes expenses over time by measuring the Payroll Center's progress towards complete satisfaction of that performance obligation in accordance with paragraphs 40–46 and AG50–AG52 of [draft] IPSAS [X] (ED 72).

Example 13 Assessing Alternative Use and Right to Payment

IE82. An international organization (the Organization, the transfer provider) enters into a binding arrangement with the Office of the Auditor General (the Auditor, the transfer recipient) for the Auditor to provide financial statement audit services to a national government (the Government, the third-party-beneficiary) that result in the Auditor providing an audit opinion to the Government. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Government. If the Organization were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Organization to compensate the Auditor for its costs incurred.

IE83. The Organization considers the criterion in paragraph 36(a) of [draft] IPSAS [X] (ED 72) and the requirements in paragraphs AG40 and AG41 of [draft] IPSAS [X] (ED 72) to determine whether the Government simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its obligation and the Organization hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Government will generate economic benefits or service potential of the Auditor's performance only when the Government receives the audit opinion. Consequently, the Organization concludes that the criterion in paragraph 36(a) of [draft] IPSAS [X] (ED 72) is not met.

IE84. However, the Auditor's performance obligation meets the criterion in paragraph 36(c) of [draft] IPSAS [X] (ED 72) and is a performance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 37 and AG43–AG45 of [draft] IPSAS [X] (ED 72), the development of the audit opinion does not create an asset with alternative use to the Auditor because the audit opinion relates to facts and circumstances that are specific to the Government. Therefore, Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 38 and AG46–AG49 of [draft] IPSAS [X] (ED 72), the Auditor has an enforceable right to payment for its performance completed to date.

IE85. Consequently, the Organization recognizes an expense over time by measuring the Auditor's progress towards complete satisfaction of the performance obligation in accordance with paragraphs 40–46 and AG50–AG52 of [draft] IPSAS [X] (ED 72).

Example 14 Asset has no Alternative Use to the Transfer Recipient

IE86. The Department of Sciences (the Department, the transfer provider) enters into a binding arrangement with a supplier (the transfer recipient) to build a specialized piece of medical research equipment for a university (the third-party beneficiary). The supplier builds medical research equipment for various purchasers, such as government agencies and departments and commercial entities. The design and construction of each piece of medical research equipment differ substantially, on the basis of each purchaser's needs and the type of technology that is incorporated into the equipment.

IE87. At the inception of the binding arrangement, the Department assesses whether the supplier's performance obligation to build the medical research equipment is a performance obligation satisfied over time in accordance with paragraph 36 of [draft] IPSAS [X] (ED 72).

IE88. As part of that assessment, the Department considers whether the medical research equipment in its completed state will have an alternative use to the supplier. Although the binding arrangement does not preclude the supplier from directing the completed medical research equipment to another purchaser, the supplier would incur significant costs to rework the design and function of the equipment to direct that asset to another purchaser. Consequently, the asset has no alternative use to the supplier (see paragraphs 36(c), 37 and AG43–AG45 of [draft] IPSAS [X] (ED 72)) because the purchaser-specific design of the medical research equipment limits the supplier's practical ability to readily direct the equipment to another purchaser.

IE89. For the supplier's performance obligation to be satisfied over time when building the medical research equipment, paragraph 36(c)of [draft] IPSAS [X] (ED 72) also requires the supplier to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

IE90. Example 15 illustrates the requirements in paragraphs 40–46 of IPSAS [X] on measuring progress towards complete satisfaction of a performance obligation satisfied over time.

Example 15 Measuring Progress when the Transfer Recipient is Making Goods or Services Available

IE91. A local government (the transfer provider) enters into a binding arrangement with a sports facility (the transfer recipient) that owns and manages a public swimming pool to allow children under 12 years of age (the third-party beneficiaries) to access to the pool free of charge. The children have unlimited use of the pool. The local government promises to pay CU15,000 per month.

IE92. The local government determines that the sports facility's promise is to provide a service of making the pool available for the children to use as and when the children wish. This is because the extent to which the children use the pool does not affect the amount of the remaining goods and services to which the children are entitled. The local government concludes that the children simultaneously receive and consume the benefits or service potential of the sports facility's performance as it performs by making the pools available. Consequently, the sports facility's performance obligation is satisfied over time in accordance with paragraph 36(a) of [draft] IPSAS [X] (ED 72).

IE93. The local government also determines that the children consume economic benefits or service potential from the sports facility making the pool available throughout the year. (That is, the children benefit from having the pools available, regardless of whether the children use it or not.) Consequently, the local government concludes that the best measure of progress towards complete satisfaction of the sports facility's performance obligation over time is a time-based measure and it recognizes expenses on a straight-line basis throughout the year at CU15,000 per month.

Variable Consideration

IE94. Example 16 and Example 17 illustrate the requirements in paragraphs 51–55 of IPSAS [X] (ED 72) on identifying variable consideration.

Example 16 Penalty Gives Rise to Variable Consideration

IE95. The Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a highway construction company (the transfer recipient) to build a highway for a provincial government (the third-party beneficiary) for CU10 million. In addition, the terms of the binding arrangement include a penalty of CU1 million if the construction is not completed within three months of a date specified in the binding arrangement.

IE96. Public Works concludes that the consideration promised in the binding arrangement includes a fixed amount of CU10 million and a variable amount of CU1 million (arising from the penalty).

IE97. Public Works estimates the variable consideration in accordance with paragraphs 51–55 of [draft] IPSAS [X] (ED 72) and considers the requirements in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration.

Example 17 Estimating Variable Consideration

IE98. The Department of Transportation (Transportation, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) to build a bridge for a local government (the third-party beneficiary). The promise by Public Works to transfer the bridge is a performance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE99. In addition, upon completion of the bridge, an independent inspector will assess the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE100. In determining the transaction consideration, Transportation prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 54 of [draft] IPSAS [X] (ED 72):

IE101. Transportation decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Transportation expects to better predict the amount of consideration to which Public Works will be entitled.

IE102. Transportation decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Transportation expects to better predict the amount of consideration to which Public Works will be entitled.

IE103. Transportation considers the requirements in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction price.

Constraining Estimates of Variable Consideration

IE104. Example 18 illustrates the requirements in paragraphs 56–58 of IPSAS [X] (ED 72) on constraining the estimates of variable consideration.

Example 18 Volume Discount Incentive

IE105. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a private hospital (the Hospital, the transfer recipient) on January 1, 20X8 to provide medical examinations for refugees (the third-party beneficiaries) for CU100 per examination. If more than 10,000 examinations are performed in a calendar year, the binding arrangement specifies that the price per unit is retrospectively reduced to CU90 per unit. Consequently, the consideration in the binding arrangement is variable.

IE106. For the first quarter ended March 31, 20X8, the Hospital performs 750 examinations. The Organization estimates that the Hospital will not exceed the 10,000-examination threshold required for the volume discount in the calendar year.

IE107. The Organization considers the requirements in paragraphs 56–58 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration, including the factors in paragraph 57 of [draft] IPSAS [X] (ED 72). The Organization determines that it has significant experience with the medical examination and with the usage pattern of the refugees. Thus, the Organization concludes that it is probable that a significant reversal in the cumulative amount of expenses recognized (i.e., CU100 per unit) will not occur when the uncertainty is resolved (i.e., when the total amount of examinations is known). Consequently, the Organization recognizes expenses of CU75,000 (750 units × CU100 per unit) for the quarter ended March 31, 20X8.

IE108. In May 20X8, more refugees arrive in the country and in the second quarter ended June 30, 20X8 the Hospital performs an additional 5,000 examinations. In the light of the new fact, the Organization estimates that the number of examinations will exceed the 10,000-examination threshold for the calendar year and therefore the price per unit will be retrospectively reduced to CU90.

IE109. Consequently, the Organization recognizes expenses of CU442,500 for the quarter ended June 30, 20X8. That amount is calculated from CU450,000 for the sale of 5,000 units (5,000 units × CU90 per unit) less the change in transaction price of CU7,500 (750 units × CU10 price reduction) for the reduction of revenue relating to units provided for the quarter ended March 31, 20X8 (see paragraphs 86 and 87 of [draft] IPSAS [X] (ED 72)).

The Existence of a Significant Financing Component in the Binding Arrangement

IE110. Example 19–Example 21 illustrate the requirements in paragraphs 60–65 of IPSAS [X] (ED 72) on the existence of a significant financing component in the binding arrangement.

Example 19 Withheld Payments on a Long-Term Binding Arrangement

IE111. A Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a construction company (the Company, the transfer recipient) for the Company to construct a building for a local government (the third-party beneficiary) that includes scheduled milestone payments for the performance by the Company throughout the binding arrangement term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Company's expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by Public Works throughout the arrangement and paid to the Company only when the building is complete.

IE112. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with the Company's performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 62(c) of [draft] IPSAS [X] (ED 72). The withholding of a specified percentage of each milestone payment is intended to protect Public Works from the Company failing to adequately complete its obligations under the binding arrangement.

Example 20 Determining the Discount Rate

IE113. The Department of Communications and Information (the Department, the transfer provider) enters into a binding arrangement with a telecommunications company (Telcom, the transfer recipient) for Telcom to provide broadband internet equipment to a foreign government (the third-party beneficiary). Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU1 million plus a five per cent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU18,871.

Case A—Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE114. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five per cent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and Telcom at the inception of the binding arrangement (i.e., the rate of interest of five per cent in the binding arrangement reflects the credit characteristics of the Department).

IE115. The market terms of the financing mean that the cash price of the equipment is CU1 million. This amount is recognized as an expense and as a loan payable when control of the equipment transfers to the foreign country. The Department accounts for the payable in accordance with IPSAS 41, *Financial Instruments*.

Case B—Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE116. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five per cent rate of interest in the binding arrangement is significantly lower than the 12 per cent interest rate that would be used in a separate financing transaction between the Department and Telcom at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five per cent does not reflect the credit characteristics of the Department). This suggests that the cash price is less than CU1 million.

IE117. In accordance with paragraph 64 of [draft] IPSAS [X] (ED 72), the Department determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 per cent interest rate that reflects the credit characteristics of the Department. Consequently, the Department determines that the transaction consideration is CU848,357 (60 monthly payments of CU18,871 discounted at 12 per cent). The Department recognizes an expense and a loan payable for that amount. The Department accounts for the loan payable in accordance with IPSAS 41.

Example 21 Advance Payment and Assessment of Discount Rate

IE118. A government agency (the Agency) will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the Agency plans to sell the surplus vehicles. To achieve this objective, the Agency (the transfer recipient) enters into a binding arrangement with a local government (the transfer provider). The binding arrangement requires the local government to make a cash payment to the Agency, and requires the Agency to provide one of the surplus vehicles to a not-for-profit organization (the Organization, the third-party beneficiary) in two years (i.e., the performance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU50,000 in two years when the Organization obtains control of the asset or payment of CU40,000 when the binding arrangement is signed. The local government elects to pay CU40,000 when the binding arrangement is signed.

IE119. The local government concludes that the binding arrangement contains a significant financing component because of the length of time between when the local government pays for the vehicle to be transferred to the Organization and when the Agency transfers the vehicle to the Organization, as well as the prevailing interest rates in the market.

IE120. The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the local government determines that, in accordance with paragraph 64 of [draft] IPSAS [X] (ED 72), the rate that should be used in adjusting the promised consideration is six per cent, which reflects the credit characteristics of the Agency.

IE121. The following journal entries illustrate how the local government would account for the significant financing component:

(a) Recognize a transfer provider's binding arrangement asset for the CU40,000 payment made at inception of the binding arrangement:

Transfer provider's binding arrangement asset	CU40,000	
Cash		CU40,000

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the local government adjusts the promised amount of consideration (in accordance with paragraph 65 of [draft] IPSAS [X] (ED 72)) and accretes the binding arrangement asset by recognizing interest on CU40,000 at six per cent for two years:

Transfer provider's binding arrangement asset	CU4,940[5]	
Interest revenue		CU4,940

(c) Recognize an expense as the Agency transfers the asset:

Expense	CU44,940	
Transfer provider's binding arrangement asset		CU44,940

Allocating the Transaction Consideration to Performance Obligations (Step 4)

IE122. Example 22 and Example 23 illustrate the requirements in paragraphs 72–85 of IPSAS [X] (ED 72) on allocating the transaction consideration to performance obligations.

Example 22 Allocation Methodology

IE123. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a vehicle manufacturer (the Manufacturer, the transfer recipient) to provide vehicles, specialized spare parts and specialized engines to a national government (the Government, the third-party beneficiary) in exchange for CU100 million. The Manufacturer will satisfy its performance obligations for each of the products at different points in time. The Manufacturer provides vehicles separately and therefore the stand-alone purchase price is directly observable. The stand-alone purchase prices of the specialized spare parts and specialized engines are not directly observable.

IE124. Because the stand-alone purchase prices for the specialized spare parts and specialized engines are not directly observable, the Organization must estimate them. To estimate the stand-alone purchase prices, the Organization uses the adjusted market assessment approach for the specialized spare parts and the specialized engines. In making those estimates, the Organization

[5] CU4,940 = CU40,000 transfer provider's binding arrangement asset × (6 per cent interest per year for two years) (rounded to the nearest CU10).

maximizes the use of observable inputs (in accordance with paragraph 77 of [draft] IPSAS [X] (ED 72)). The Organization estimates the stand-alone prices as follows:

Product	**Stand-Alone Purchase Price (CU Millions)**	**Method**
Vehicles	90	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 72))
Specialized Spare Parts	10	Adjusted market assessment approach (see paragraph 78(a) of [draft] IPSAS [X] (ED 72))
Specialized Engines	20	Adjusted market assessment approach (see paragraph 78(a) of [draft] IPSAS [X] (ED 72))
Total	120	

IE125. The Organization receives a discount for purchasing the bundle of goods because the sum of the stand-alone purchase prices (CU120 million) exceeds the transaction consideration (CU100 million). The Organization considers whether it has observable evidence about the Manufacturer's performance obligation to which the entire discount belongs (in accordance with paragraph 81 of [draft] IPSAS [X] (ED 72)) and concludes that it does not. Consequently, in accordance with paragraphs 75 and 80 of [draft] IPSAS [X] (ED 72), the discount is allocated proportionately across the vehicles, spare parts and the specialized engines. The discount, and therefore the transaction consideration, is allocated as follows:

Product	**Allocated Transaction Consideration (CU Millions)**	
Vehicles	75	(CU90 ÷ CU120 x CU100)
Specialized Spare Parts	8	(CU10 ÷ CU120 x CU100)
Specialized Engines	17	(CU20 ÷ CU120 x CU100)
Total	100	

Example 23 Allocating a Discount

IE126. A government procurement agency (the Agency, the transfer provider) regularly purchases common-use supplies, including Supplies A, B and C individually. The Agency establishes the following stand-alone prices:

Product	Stand-Alone Purchase Price (CU)
Supply A	40
Supply B	55
Supply C	45
Total	140

IE127. In addition, the Agency regularly acquires Supplies B and C together for CU60.

Case A—Allocating a Discount to One or More Performance Obligations

IE128. The Agency enters into a binding arrangement with a supplier (the Supplier, the transfer recipient) for the Supplier to provide Supplies A, B and C to a not-for-profit organization (the Organization, the third-party beneficiary) in exchange for CU100. The Supplier will satisfy the performance obligations for each of the supplies at different points in time.

IE129. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three of the Supplier's performance obligations when allocating the transaction consideration using the relative stand-alone purchase price method (in accordance with paragraph 80 of [draft] IPSAS [X] (ED 72)). However, because the Agency regularly purchases Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the Supplier's promises to transfer Supplies B and C to the Organization in accordance with paragraph 81 of [draft] IPSAS [X] (ED 72).

IE130. If the Supplier transfers control of Supplies B and C to the Organization at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single performance obligation. That is, the Agency could allocate CU60 of the transaction consideration to the single performance obligation and recognize an expense of CU60 when Supplies B and C simultaneously transfer to the Organization.

IE131. If the binding arrangement requires the Supplier to transfer control of Supplies B and C to the Organization at different points in time, then the allocated amount of CU60 is individually allocated to the Supplier's promises to transfer Supply B (stand-alone purchase price of CU55) and Supply C (stand-alone purchase price of CU45) to the Organization as follows:

Product	Stand-Alone Purchase Price (CU)	
Supply B	33	(CU55 ÷ CU100 total stand-alone price × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone price × CU60)
Total	60	

Case B—Residual Approach is Appropriate

IE132. The Agency enters into a binding arrangement with the Supplier for the Supplier to provide Supplies A, B and C to the Organization as described in Case A. The binding arrangement also includes a promise by the Supplier to transfer Supply D to the Organization. Total consideration in the binding arrangement is CU130. The stand-alone purchase price for Supply D is highly variable (see paragraph 78(b) of [draft] IPSAS [X] (ED 72)) because the Agency purchases Supply D from different suppliers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone purchase price of Supply D using the residual approach.

IE133. Before estimating the stand-alone purchase price of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the Supplier's other performance obligations in the binding arrangement in accordance with paragraphs 81 and 82 of [draft] IPSAS [X] (ED 72).

IE134. As in Case A, because the Agency regularly purchases Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the Supplier's promises to transfer Supplies B and C to the Organization in accordance with paragraph 81 of [draft] IPSAS [X] (ED 72). Using the residual approach, the Agency estimates the stand-alone price of Supply D to be CU30 as follows:

Product	**Stand-Alone Purchase Price (CU)**	**Method**
Supply A	40	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 72))
Supplies B and C	60	Directly observable with discount (see paragraph 81 of [draft] IPSAS [X] (ED 72))
Supply D	30	Residual approach (see paragraph 78(b) of [draft] IPSAS [X] (ED 72))
Total	120	

IE135. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable purchase prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 72) and the requirements in paragraph 77 of [draft] IPSAS [X] (ED 72).

Case C—Residual Approach is Inappropriate

IE136. The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone price of CU5 for Supply D (CU105 transaction price less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration which it expects to pay in exchange for the Supplier satisfying its performance obligation to transfer Supply D to the Organization, because CU5 does not approximate the stand-alone purchase

price of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data to estimate the stand-alone price of Supply D using another suitable method. The Agency allocates the transaction price of CU105 to Supplies A, B, C and D using the relative stand-alone prices of those products in accordance with paragraphs 72–79 of [draft] IPSAS [X] (ED 72).

Purchaser Options for Additional Goods or Services

IE137. Example 24 illustrate the requirements in paragraphs AG59–AG63 of [draft] IPSAS [X] (ED 72) on purchaser options for additional goods or services.

Example 24 Option that Provides the Transfer Provider with a Material Right (Discount Voucher)

IE138. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a publisher (the Publisher, the transfer recipient) for the Publisher to provide copies of Textbook A to the all the universities in a country (the Universities, the third-party beneficiaries) for CU100 per copy. As part of the binding arrangement, the Publisher gives the Organization a 40 per cent discount voucher for any future purchases of Textbook B (which would normally cost CU50) in the next 30 days. The Publisher has already announced an offer of a 10 per cent discount on all sales during the next 30 days as part of a promotion. The 10 per cent discount cannot be used in addition to the 40 per cent discount voucher.

IE139. Because all purchasers will receive a 10 per cent discount on purchases during the next 30 days, the only discount that provides the Organization with a material right is the discount that is incremental to that 10 per cent (i.e., the additional 30 per cent discount). The Organization accounts for the Publisher’s promise to provide the incremental discount as a performance obligation of the Publisher in the binding arrangement for the sale of Textbook A.

IE140. To estimate the stand-alone purchase price of the discount voucher in accordance with paragraph AG62 of [draft] IPSAS [X] (ED 72), the Organization estimates an 80 per cent likelihood that it will redeem the voucher and provide Textbook B to all the Universities. Consequently, the Organization’s estimated stand-alone purchase price of the discount voucher is CU12 per book (CU50 stand-alone purchase price of Textbook B × 30 per cent incremental discount × 80 per cent likelihood of exercising the option). The stand-alone purchase prices of Textbook A and the discount voucher and the resulting allocation of the CU100 transaction consideration are as follows:

Performance Obligation	**Stand-Alone Purchase Price (CU)**
Textbook A	100
Discount Voucher	12
Total	112

	Allocated Transaction Price (CU)

Textbook A	89	(CU100 ÷ CU112 × CU100)
Discount Voucher	11	(CU12 ÷ CU112 × CU100)
Total	100	

IE141. The Organization allocates CU89 to Textbook A and recognizes an expense for Textbook A as the Publisher transfers the textbooks to the Universities. The Organization allocates CU11 to the discount voucher and recognizes an expense for the voucher when it redeems it for Textbook B or when it expires.

Non-refundable Upfront Fees

IE142. Example 25 illustrates the requirements in paragraphs AG67–AG69 of [draft] IPSAS [X] (ED 72) on non-refundable upfront fees.

Example 25 Non-refundable Upfront Fee

IE143. A provincial government (the Province, the transfer provider) enters into a binding arrangement with a leisure facility (the Facility, the transfer recipient) for the Facility to provide one year of access to its swimming pool for students at the local university (the Students, the third-party beneficiaries). The Facility's binding arrangements have standard terms that are the same for all group arrangements. The binding arrangement requires the customer to pay an upfront administration fee to set up eligible individuals (in this case the Students) on the Facility's systems. The fee is a nominal amount per individual and is non-refundable. The Province can renew the binding arrangement each year without paying an additional fee for Students who continue to study at the university.

IE144. The Facility's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a transfer recipient's performance obligation.

IE145. The Province concludes that the renewal option does not provide it with a material right that it would not receive without entering into that binding arrangement (see paragraph AG60 of [draft] IPSAS [X] (ED 72)). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Province determines the transaction consideration, which includes the non-refundable upfront fee, and recognizes an expense for the transaction processing services as those services are provided in accordance with paragraph AG68 of [draft] IPSAS [X] (ED 72).

Licensing

IE146. Example 26–Example 28 illustrate the requirements in paragraphs 24–32 of [draft] IPSAS [X] (ED 72) for identifying performance obligations and paragraphs AG70–AG83 of [draft] IPSAS [X] (ED 72) on licensing.

Example 26 Right to Use Intellectual Property

IE147. Using the same facts as Case A of Example 11 (see paragraphs IE57–IE78), the State Government identifies four performance obligations of the Agency in a binding arrangement:

(a) The software license;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE148. The State Government assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG75 of [draft] IPSAS [X] (ED 72). The State Government does not consider in its assessment of the criteria in paragraph AG75 of [draft] IPSAS [X] (ED 72) the Agency's promise to provide software updates, because they result in the transfer of an additional good or service to the Universities (the third-party beneficiaries in Example 11) (see paragraph AG75(c) of [draft] IPSAS [X] (ED 72)). The State Government also observes that the Agency does not have any implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the license period. The State Government observes that the software remains functional without the updates and the technical support and, therefore, the ability of the Universities to obtain the economic benefits or service potential of the software is not substantially derived from, or dependent on, the Agency's ongoing activities. The State Government therefore determines that the binding arrangement does not require, and it does not reasonably expect, the Agency to undertake activities that significantly affect the software (independent of the updates and technical support). The State Government concludes that the software to which the license relates has significant stand-alone functionality and none of the criteria in paragraph AG75 of [draft] IPSAS [X] (ED 72) are met. The State Government further concludes that the nature of the Agency's promise in transferring the license to the Universities is to provide a right to use the Agency's intellectual property as it exists at a point in time. Consequently, the State Government accounts for the license as a performance obligation satisfied at a point in time.

Example 27 License of Intellectual Property

IE149. The Department of Culture (the Department, the transfer provider) enters into a binding arrangement with a government film library (the Library, the transfer recipient) for the library to license (for a period of three years) a collection of films to a museum (the Museum, the third-party beneficiary) for display in an exhibition. The binding arrangement also specifies that the Museum will obtain any new films added to the collection by the Library during the licensing period. The updates are integral to the Museum's ability to generate economic benefits or service potential from the license during the license period, because the films relate to historical events which are considered relevant to current cultural views and public discourse.

IE150. The Department assesses the goods and services promised by the Library to the Museum to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The Department determines that the Museum can generate economic benefits or service potential from (a) the license on its own without the addition of the new films; and (b) the addition of the new films together with the initial license. Although the economic benefits or service potential that the Museum could obtain from the license on its own (i.e., without the additional films) is limited because the updates are integral to the Museum's ability to continue to attract significantly more visitors, the license can be used in a way that generates some economic benefits or service potential. Therefore, the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is met for the license and the addition of new films.

IE151. The fact that the economic benefits or service potential that the Museum could obtain from the license on its own (i.e., without the addition of the new films) is limited (because the addition of the new films are integral to the Museum's ability to attract more visitors) is also considered in

assessing whether the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is met. Because the economic benefits or service potential that the Museum could obtain from the license over the three-year term without the additions would be significantly limited, the Library's promises to grant the license and to provide the expected additions are, in effect, inputs that together fulfill a single promise of the Library to deliver a combined item to the Museum. That is, the nature of the Library's promise in the binding arrangement is to provide ongoing access to the Library's film collection for the three-year term of the binding arrangement. The promises within that combined item (i.e., to grant the license and to provide new films when-and-if-available) are, therefore, not separately identifiable in accordance with the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72).

IE152. The nature of the combined good or service that the Library promised to transfer to the Museum is ongoing access to the Library's film collection for the three-year term of the binding arrangement. On the basis of this conclusion, the Department applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether the Library's single performance obligation is satisfied at a point in time or over time. The Department concludes that because the Museum simultaneously receives and consumes the economic benefits or service potential of the Library's performance as it occurs, the Library's performance obligation is satisfied over time in accordance with paragraph 36(a) of [draft] IPSAS [X] (ED 72).

Example 28 Identifying a Distinct License

IE153. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a university research facility (the Facility, the transfer recipient) to license the Facility's patent rights to a laser surgery technology to a hospital in a developing country (the Hospital, the third-party beneficiary) for 10 years. The Facility also promises to manufacture the technology for the Hospital. Laser surgery technology in general is mature; therefore, the Facility will not undertake any activities to support the technology, which is consistent with its customary practices.

Case A—License is Not Distinct

IE154. In this case, no other entity can manufacture this technology because of the highly specialized nature of the manufacturing process. As a result, the license cannot be purchased separately from the manufacturing services.

IE155. The Organization assesses the goods and services promised to the clinic to determine which goods and services are distinct in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72). The Organization determines that the Hospital cannot generate economic benefits or service potential from the license without the manufacturing service; therefore, the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is not met. Consequently, the license and the manufacturing service are not distinct and the Organization accounts for the license and the manufacturing service as a single performance obligation.

IE156. The Organization applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether the performance obligation (i.e., the bundle of the license and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—License is Distinct

IE157. In this case, the manufacturing process used to produce the laser surgery technology is not unique or specialized and several other entities can also manufacture the technology for the Hospital.

IE158. The Organization assesses the goods and services promised to the Hospital to determine which goods and services are distinct, and it concludes that the criteria in paragraph 29 of [draft] IPSAS [X] (ED 72) are met for each of the license and the manufacturing service. The Organization concludes that the criterion in paragraph 29(a) of [draft] IPSAS [X] (ED 72) is met because the Hospital can generate economic benefits or service potential from the license together with readily available resources other than the Facility's manufacturing service (because there are other entities that can provide the manufacturing service), and can generate economic benefits or service potential from the manufacturing service together with the license transferred to the Hospital at the start of the binding arrangement.

IE159. The Organization also concludes that the Facility's promises to grant the license and to provide the manufacturing service are separately identifiable (i.e., the criterion in paragraph 29(b) of [draft] IPSAS [X] (ED 72) is met). The Organization concludes that the license and the manufacturing service are not inputs to a combined item in this binding arrangement on the basis of the principle and the factors in paragraph 29 of [draft] IPSAS [X] (ED 72). In reaching this conclusion, the Organization considers that the Hospital could separately purchase the license without significantly affecting its ability to generate economic benefits or service potential from the license. Neither the license, nor the manufacturing service, is significantly modified or customized by the other and the Facility is not providing a significant service of integrating those items into a combined output. The Organization further considers that the license and the manufacturing service are not highly interdependent or highly interrelated because the Facility would be able to fulfill its promise to transfer the license independently of fulfilling its promise to subsequently manufacture the laser for the Hospital. Similarly, the Facility would be able to manufacture the laser for the Hospital even if the Hospital had previously obtained the license and initially utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the license in this contract (i.e., the Facility would not provide the manufacturing service without the clinic having obtained the license), the license and the manufacturing service do not significantly affect each other. Consequently, the Organization concludes that its promises to grant the license and to provide the manufacturing service are distinct and that there are two transfer recipient's performance obligations:

(a) License of patent rights; and

(b) Manufacturing service.

IE160. The Organization assesses, in accordance with paragraph AG75 of [draft] IPSAS [X] (ED 72), the nature of the Facility's promise to grant the license. The laser technology is a mature product (i.e., it has been approved, is currently being manufactured and has been provided at a surplus for the last several years). For these types of mature products, the Facility's customary practices are not to undertake any activities to support the laser technology. The technology has significant stand-alone functionality (i.e., its ability to be used in a way that treats a disease or condition). Consequently, the Hospital obtains a substantial portion of the economic benefits or service potential of the laser technology from that functionality, rather than from the Facility's ongoing activities. The Organization concludes that the criteria in paragraph AG75 of [draft] IPSAS [X]

(ED 72) are not met because the binding arrangement does not require, and the binding arrangement does not reasonably expect, the Facility to undertake activities that significantly affect the intellectual property to which the Hospital has rights. In its assessment of the criteria in paragraph AG75 of [draft] IPSAS [X] (ED 72), the Organization does not take into consideration the Facility's separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the Facility's promise in transferring the license is to provide a right to use the Facility's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the clinic. Consequently, the Organization accounts for the license as a performance obligation satisfied at a point in time.

IE161. The Facility applies paragraphs 33–39 of [draft] IPSAS [X] (ED 72) to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Bill-and-Hold Arrangements

IE162. Example 29 illustrates the requirements in paragraphs AG84–AG87 of [draft] IPSAS [X] (ED 72) on bill-and-hold arrangements.

Example 29 Bill-and-Hold Arrangement

IE163. An education department (the Department, the transfer provider) enters into a binding arrangement with a publisher (the Publisher, the transfer recipient) on January 1, 20X8 for the Publisher to provide two consignments of textbooks to a not-for-profit education charity (the Charity, the third-party beneficiary), each relating to a different educational symposium for disadvantaged children. The publishing lead time for the textbooks is one year.

IE164. Upon completion of textbooks, the Publisher demonstrates that the textbooks meet the agreed-upon specifications in the binding arrangement. The Publisher's promises to transfer the two consignments of textbooks are distinct and result in two performance obligations that each will be satisfied at a point in time. On December 31, 20X8, the Department pays for both consignments of textbooks, but only the first consignment of textbooks is physically transferred to the Charity, as the symposium relating to the second consignment is not scheduled to occur for another two years. Although the Charity inspects and accepts the second consignment of textbooks, the Department requests that the second consignment be stored at the Publisher's warehouse for two years due to better security at the Publisher's premises. The Charity has legal title to the second consignment of textbooks and the textbooks can be identified as belonging to the Charity. Furthermore, the Publisher stores the second consignment of textbooks in a separate section of its warehouse and the textbooks are ready for immediate shipment at the Charity's request. The Publisher expects to hold the second consignment of textbooks for up to two years and the Publisher does not have the ability to use the second consignment of textbooks or direct them to another purchaser.

IE165. The Department identifies the Publisher's promise to provide custodial services as a performance obligation because it is a service provided to the Charity and it is distinct from the two consignments of textbooks. Consequently, the Department accounts for three performance obligations in the binding arrangement (the Publisher's promises to provide the two consignments of textbooks and the custodial services). The transaction consideration is allocated to the three performance obligations and expenses are recognized when (or as) control transfers to the Charity.

IE166. Control of the first consignment of textbooks transfers to the Charity on December 31, 20X8 when the Charity takes physical possession. The Department assesses the indicators in paragraph 39 of [draft] IPSAS [X] (ED 72) to determine the point in time at which control of the second consignment of textbooks transfers to the Charity, noting that the Publisher has received payment, the Charity has legal title to the second consignment of textbooks, and the Charity has inspected and accepted the second consignment. In addition, the Department concludes that all of the criteria in paragraph AG86 of [draft] IPSAS [X] (ED 72) are met, which is necessary for the Department to recognize an expense in a bill-and-hold arrangement. The Department recognizes an expense for the second consignment of textbooks on December 31, 20X8 when control transfers to the Charity.

IE167. The Publisher's performance obligation to provide custodial services is satisfied over time as the services are provided to the Charity. The Department considers whether the payment terms include a significant financing component in accordance with paragraphs 60–65 of [draft] IPSAS [X] (ED 72).

Transfer Expenses without Performance Obligations

Recognition and Measurement

IE168. Example 30–Example 35 illustrate the requirements in paragraphs 91–115 of [draft] IPSAS [X] (ED 72) on the recognition and measurement of transfer expenses without performance obligations.

Example 30 Transfer of Resources to Another Level of Government for General Purposes

IE169. A national government (the transfer provider) makes a transfer of CU10 million to a local government in a socioeconomically deprived area. The local government (the transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. The are no enforceable activities or eligible expenditure requirements imposed on the local government by the transfer.

IE170. The transfer does not confer enforceable rights and obligations on both parties to the agreement, and therefore is not a binding arrangement as defined in [draft] IPSAS [X] (ED 70). In the absence of a binding arrangement, the national government recognizes an expense when it transfers the CU10 million to the local government in accordance with paragraph 93 of [draft] IPSAS [X] (ED 72).

Example 31 Transfer of Resources with an Enforceable Activity and/or Eligible Expenditure

IE171. A national government (the transfer provider) enters into an agreement with a social housing entity (the transfer recipient) to make a cash transfer of CU50 million to the social housing entity. The agreement specifies that the social housing entity must:

(a) Increase the stock of social housing by an additional 1,000 units over and above any other planned increases; or

(b) Use the cash transfer in other ways to support its social housing objectives.

If neither of these requirements is satisfied, the social housing entity must return the cash to the national government.

IE172. The agreement requires the social housing entity to either undertake an enforceable activity (increase the social housing stock) or incur eligible expenditure (use the cash transfer to support social housing objectives) as defined in [draft] IPSAS [X] (ED 71). The transfer agreement confers enforceable rights and obligations on both parties to the agreement, and a binding arrangement as defined in [draft] IPSAS [X] (ED 70).

IE173. Consequently, the national government recognizes an expense at the earlier of the point at which it has a present obligation to transfer the CU50 million or the point at which it transfers the CU50 million, in accordance with paragraph 91 of [draft] IPSAS [X] (ED 72). The national government does not recognize an asset for the possible return of the funds, as this is not a resource currently controlled by the national government. Any return of the funds is conditional on a future event, the future non-compliance with the terms of the binding arrangement by the provincial government.

Example 32 Transfer to Another Level of Government with Specific Requirements

IE174. The national government (the transfer provider) enters into an agreement with a provincial government (the transfer recipient) to transfer CU10 million to the provincial government to be used to improve and maintain mass transit systems. Specifically, the provincial government is required to use the money as follows:

(a) 40 percent for existing railroad and tramway system modernization;

(b) 40 percent for new railroad or tramway systems; and

(c) 20 percent for rolling stock purchases and improvements.

IE175. Under the terms of the agreement, the money must be spent as specified in the current year or be returned to the national government.

IE176. The agreement is a binding arrangement that imposes requirements on the provincial government to undertake enforceable activities and incur eligible expenditure, as defined in [draft] IPSAS [X] (ED 71). Consequently, the national government recognizes an expense at the earlier of the point at which it has a present obligation to transfer the CU10 million or the point at which it transfers the CU10 million, in accordance with paragraph 91 of [draft] IPSAS [X] (ED 72). The national government does not recognize an asset for the possible return of the funds, as this is not a resource currently controlled by the national government. Any return of the funds is conditional on a future event, the future non-compliance with the terms of the binding arrangement by the provincial government.

Example 33 Debt Forgiveness

IE177. The national government (the transfer provider) had previously lent a local government (the transfer recipient) CU20 million. The loan was provided to enable the local government to build a water treatment plant. The national government has accounted for the loan in accordance with IPSAS 41.

IE178. After a change in policy, the national government decides to forgive the loan. There are no requirements attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE179. In accordance with paragraphs 95 and 115 of [draft] IPSAS [X] (ED 72), the national government recognizes an expense at the point it waives the loan, and measures the expense at the carrying

amount of the loan (measured in accordance with IPSAS 41). The national government applies IPSAS 41 to derecognize the loan.

Example 34 Agreement for a Series of Transfers

IE180. A regional government (the transfer provider) enters into a binding arrangement with a museum on January 1, 20X1, whereby the regional government will provide CU100,000 per year for three years for the museum to purchase additional artefacts.

Case A—Future Payments Dependent on Performance

IE181. The binding arrangement requires the regional government to transfer CU100,000 to the museum on January 31,20X1. The binding agreement also requires the regional government to transfer CU100,000 to the museum on January 31, 20X2 and January 31, 20X3 provided that the museum has acquired the artefacts in the previous year.

IE182. On January 31, 20X1, the regional government reviews the binding arrangement, and concludes that it has a present obligation for the CU100,000 due on January 31, 20X1. It recognizes an expense at that point in accordance with paragraph 97 of [draft] IPSAS [X] (ED 72). The regional government also concludes that it does not have a present obligation for the remaining payments at that point, as these are conditional on the future performance of the museum. Consequently, in accordance with paragraph 97 of [draft] IPSAS [X] (ED 72), the regional government does not recognize an expense for those payments as at January 31, 20X1, but will recognize expenses in future when the obligations to make the payments become present obligations (or when it makes the future payments, if this is earlier).

Case B—Future Payments Due in All Circumstances

IE183. The binding arrangement requires the regional government to transfer CU100,000 to the museum on January 31,20X. The binding agreement also requires the regional government to transfer CU100,000 to the museum on January 31, 20X2 and January 31, 20X3. The binding arrangement requires the regional government to make the future payments irrespective of whether the museum has acquired the intended artefacts or not.

IE184. On January 31, 20X1, the regional government reviews the binding arrangement, and concludes that it has a present obligation for all three payments of CU100,000 as at January 31, 20X1, as the regional government is unable to avoid an outflow of resources. It recognizes an expense for CU300,000 at that point, in accordance with paragraph 97 of [draft] IPSAS [X] (ED 72).

Example 35 Agreement for Transfers Subject to Approval of Appropriations

IE185. A national government has a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into a binding arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution, in accordance with the national government's policy. CU10 million is to be transferred in 20X2, with the remaining CU5 million to be transferred in 20X3.

IE186. The binding arrangement includes a term that it is subject to an appropriation being authorized. In determining the effect of the term that the binding arrangement is subject to an appropriation being authorized, the national government considers substance over form, in accordance with paragraphs 98–99 and AG98–AG102.

IE187. Parliament authorizes the appropriation for CU10 million in 20X2 on March 31, 20X2. The national government recognizes an expense of CU10 million in 20X2 in respect of the transfer that takes place in that year. The appropriation for the CU5 million is not authorized in March 20X2, but is considered at a later date, as part of the appropriation process for 20X3.

Case A—Appropriation is in Substance a Limitation

IE188. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The binding arrangement is clear that the funding is subject to the appropriation being authorized. The binding arrangement also makes it clear that such authorization is not certain, and that, consequently, the amount may be reduced.

IE189. The national government concludes that it does not have a present obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) prior to the appropriations being authorized. Consequently, the limitation (that the transfer is subject to the appropriations being authorized) has substance and, in accordance with paragraphs 98–99 and AG98–AG102, the national government recognizes a payment and an expense of CU10 million as at December 31, 20X2; but does not recognize a liability for the CU5 million, as the appropriation has not been authorized. The national government considers whether to disclose the binding arrangement as a contingent liability (see Example 41).

IE190. On March 31, 20X3, the Parliament authorizes the appropriation for CU5 million. At this date, the national government applies paragraphs 91–97 in determining when to recognize an expense.

Case B—Appropriation is not in Substance a Limitation

IE191. Authorizing legislation requires the government to invest in measures to reduce air pollution, and the binding arrangement is a firm commitment by the national government to meet its legislative obligations by investing in specific measures, set out in the binding arrangement, to be undertaken by the local government.

IE192. The national government concludes that it is has a present obligation to transfer the CU15 million prior to the appropriations (CU10 million in 20X2 and CU5 million in 20X3) being authorized. Consequently, the limitation (that the transfer is subject to the appropriation being authorized) does not have substance. As at March 15, 20X2, the national government applies paragraphs 91–97 in determining when to recognize an expense.

Comparison of Accounting for Transfer Expenses with Performance Obligations and Transfer Expenses without Performance Obligations

IE193. Example 36 summarizes the differences in accounting for transfer expenses with performance obligations and accounting for transfer expenses without performance obligations illustrated in the earlier examples, and illustrates the effect of making transfers at different times.

Example 36 National Government Provides Transfers to a Regional Government

IE194. A national government (the transfer provider) enters into a binding arrangement with a regional government (the transfer recipient) to provide CU1 million to be used to reduce unemployment in the region. The binding arrangement specifies that CU600,000 must be used to deliver 600 training courses to unemployed people resident in the region. The national government monitors and enforces the delivery of the training courses.

IE195. The delivery of the training courses involves the transfer of goods or services to third-party beneficiaries (the unemployed people resident in the region). Consequently, the national government accounts for the CU600,000 in respect of the training courses as a transfer expense with performance obligations.

IE196. The binding arrangement does not specify how the remaining CU400,000 is to be used. Consequently, the national government accounts for this amount as a transfer expense without performance obligations.

IE197. The binding arrangement is signed on July 1, 20X1 and the period of the binding arrangement is July 1, 20X1–June 30, 20X2. The national government's reporting period ends on December 31 each year.

Case A—Transfer is Made at the Start of the Binding Arrangement

IE198. In this case, the national government transfers the CU1 million to the regional government on July 1, 20X1. The national government derecognizes the cash at this date.

IE199. The national government accounts for the CU600,000 in respect of the training courses as a transfer expense with performance obligations. On July 1, 20X1, it recognizes a transfer provider's binding arrangement asset of CU600,000. The national government derecognizes the transfer provider's binding arrangement asset and recognizes an expense as the regional government provides the training courses. At December 31, 20X1, the balance of the transfer provider's binding arrangement asset represents the training courses still to be delivered at that date.

IE200. The national government accounts for the remaining CU400,000 as a transfer expense without performance obligations. [Draft] IPSAS [X] (ED 72) requires a transfer provider to recognize a transfer expense without performance obligations at the earlier of the date at which it has a present obligation to transfer the resources or the date at which it ceases to control the resources. On July 1, 20X1, the national government recognizes an expense of CU400,000 to match the transfer of the cash.

Case B—Transfer is Made at the End of the Binding Arrangement

IE201. In this case, the national government transfers the CU1 million to the regional government on June 30, 20X2. The national government derecognizes the cash at this date.

IE202. The national government accounts for the CU600,000 in respect of the training courses as a transfer expense with performance obligations. The national government recognizes an expense and a transfer provider's binding arrangement liability as the regional government provides the training courses. At December 31, 20X1, the balance of the transfer provider's binding arrangement liability represents the training courses delivered by the regional government at that date for which payment has yet to be made.

IE203. The national government accounts for the remaining CU400,000 as a transfer expense without performance obligations. [Draft] IPSAS [X] (ED 72) requires a transfer provider to recognize a transfer expense without performance obligations at the earlier of the date at which it has a present obligation to transfer the resources or the date at which it ceases to control the resources. Consequently, the national government will recognize an expense on June 30, 20X2 unless the terms of the binding arrangement mean that it has a present obligation at an earlier date. In such circumstances, the national government would recognize an expense and a payable at that earlier date.

Presentation

IE204. Example 37 and Example 38 illustrate the requirements in paragraphs 121–125 of [draft] IPSAS [X] (ED 72) on the presentation of binding arrangement balances under the public sector performance obligation approach.

Example 37 Transfer Provider's Binding Arrangement Asset

Case A—Cancellable Binding Arrangement

IE205. On January 1, 20X9, a government procurement agency (the Agency, the transfer provider) enters into a binding arrangement that is cancellable with a supplier (the Supplier, the transfer recipient) to transfer a product to a local government (the third-party beneficiary) on March 31, 20X9. The binding arrangement requires Agency to pay consideration of CU1,000 in advance on January 31, 20X9. However, the Agency pays the consideration on March 1, 20X9. The Supplier transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency pays cash of CU1,000 on March 1, 20X9 (cash is paid in advance of the Supplier's performance):

	Dr	Cr
Transfer provider's binding arrangement asset	CU1,000	
Cash		CU1,000

(b) The Agency satisfies the performance obligation on March 31, 20X9:

	Dr	Cr
Expense	CU1,000	
Transfer provider's binding arrangement asset		CU1,000

Case B—Non-Cancellable Binding Arrangement

IE206. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a payable because it has a present obligation to make the payment and the Supplier has an unconditional right to consideration):

	Dr	Cr
Transfer provider's binding arrangement asset	CU1,000	
Payable		CU1,000

(b) The Agency pays the cash on March 1, 20X9:

	Dr	Cr
Payable	CU1,000	
Cash		CU1,000

(c) The Agency satisfies the performance obligation on March 31, 20X9:

	Dr	Cr
Expense	CU1,000	
Transfer provider's binding arrangement asset		CU1,000

IE207. If the Agency received the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the transfer provider's binding arrangement asset and the payable on a gross basis in the statement of financial position because the Agency does not at that point have a present obligation.

Example 38 Transfer Provider's Binding Arrangement Liability Recognized for the Transfer Recipient's Performance

IE208. On January 1, 20X8, a government education department (Education, the transfer provider) enters into a binding arrangement with an IT supplier (the Supplier, the transfer recipient) for the supplier to transfer computer software and configuration services to a small government department (the Department, the third-party beneficiary) in exchange for CU1,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000 is due only after the Supplier has transferred both the software and configuration services to the Department. Consequently, Education does not have a present obligation (a payable) until the software is transferred to the Department and configured.

IE209. Education identifies the Supplier's promises to transfer the software and complete the configuration as separate performance obligations and allocates CU400 to the performance obligation to transfer the software and CU600 to the performance obligation to complete the configuration on the basis of their relative stand-alone prices. Education recognizes an expense for each respective performance obligation when control of the product transfers to the Department.

(a) The Supplier satisfies the performance obligation to transfer the software:

Expense	CU400	
Transfer provider's binding arrangement liability		CU400

(b) The Supplier satisfies the performance obligation to configure the software. The Supplier has the unconditional right to consideration, and Education has a present obligation to make payment:

Expense	CU600	
Transfer provider's binding arrangement liability	CU400	
Payable		CU1,000

Disclosure

Transfer Expenses with Performance Obligations

IE210. Example 39 and Example 40 illustrate the requirements in paragraphs 138–141 of [draft] IPSAS [X] (ED 72) for the disclosure of transaction consideration allocated to the remaining transfer recipient's performance obligations under the public sector performance obligation approach. In addition, the requirements of paragraph 57 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration are illustrated in Example 39.

Example 39 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations

IE211. On June 30, 20X7, a centralized training agency (the Agency, the transfer provider) enters into three binding arrangements (Binding Arrangements A, B and C) with a training company (the Company, the transfer recipient) for the Company to provide training services to three not-for-profit organizations (Organizations X, Y and Z, the third-party beneficiaries). Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 138–139 of [draft] IPSAS [X] (ED 72) in determining the information in each binding arrangement to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

Binding Arrangement A

IE212. The Company provides training services to Organization X over the next two years, typically at least once per month. For services provided, the Agency pays an hourly rate of CU25. The Agency estimates that the Company provides an average of eight hours of training per month, and the total transaction consideration is based on this estimate. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using an output method (the number of hours of training received by Organization X).

IE213. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The information for Binding Arrangement A included in the overall disclosure is as follows:

	20X8 **CU**	**20X9** **CU**	**Total** **CU**
Expenses expected to be incurred on Binding Arrangement A as of 31 December 20X7	2,400[6]	1,200[7]	3,600

Binding Arrangement B

IE214. Training services are to be provided by the Company to Organization Y as and when needed with a maximum of four visits per month over the next two years. The Agency pays a fixed price of CU400 per month for both services. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using a time-based measure.

IE215. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The information for Binding Arrangement B included in the overall disclosure is as follows:

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6 8 hours training per month x CU25/hour x 12 months

7 8 hours training per month x CU25/hour x 6 months

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement B as of 31 December 20X7	4,800[8]	2,400[9]	7,200

Binding Arrangement C

IE216. Training services are to be provided by the Company to Organization Z as and when needed over the next two years. The Agency pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of Organization Z's employees (i.e., a performance bonus). The Agency estimates that the Company will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 57 of [draft] IPSAS [X] (ED 72), the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is probable that a significant reversal in the amount of cumulative expenses recognized will not occur. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using a time-based measure.

IE217. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement C as of 31 December 20X7	1,575[10]	788[11]	2,363

IE218. In addition, in accordance with paragraph 141 of [draft] IPSAS [X] (ED 72), the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration.

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8 CU400 x 12 months

9 CU400 x 6 months

10 Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

11 CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year)

Example 40 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations—Qualitative Disclosure

IE219. On January 1, 20X2, the Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a State-Owned Enterprise (SOE, the transfer recipient) to refurbish a building for a local authority school (the School, the third-party beneficiary) for fixed consideration of CU10 million. The refurbishment of the building is considered a single performance obligation that SOE satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of expenses. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE220. At 31 December 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as an expense in its disclosure of the transaction consideration allocated to SOE's remaining performance obligations. Public Works also discloses an explanation of when it expects to recognize that amount as an expense. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining transfer recipient's performance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of the expense recognition, Public Works discloses this information qualitatively as follows:

'As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to SOE's remaining performance obligation is CU6.8 million and Public Works will recognize this as an expense as the building is completed, which is expected to occur over the next 12–18 months.'

Transfer Expenses without Performance Obligations

IE221. Example 41 illustrates the requirements of [draft] IPSAS [X] (ED 72) regarding the disclosure of a transfer expense that is subject to appropriations.

Example 41 Disclosure of a Transfer Expense Subject to Appropriations

IE222. The facts are the same as in Case A of Example 35. The national government does not recognize a liability or an expense for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the national government considers whether it should disclose a contingent liability, in accordance with paragraph 100 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE223. The national government concludes that the probability of any outflow in settlement of the contingent liability is greater than remote. Consequently, the national government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2:

On March 15, 20X2, the national government entered into a binding arrangement that requires it to transfer CU5 million to a local government in 20X3. The binding arrangement requires the local government to use the funds to reduce air pollution. The binding arrangement made it clear that the transfer was subject to an appropriation being authorized, and that approval was not certain and that funding could be reduced. The national government has not recognized a liability or an expense in respect of the binding arrangement because, as of December 31, 20X2, the appropriation had not been authorized, and therefore the national government did not have a present obligation to transfer the funds to the local government. The appropriation was approved on March 31, 20X3, and the national government will transfer the CU5 million during 20X3.

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Published by:

IPSASB
International Public
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529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.ipsasb.org

Table of Concordance Comparing Paragraphs IFRS 15, *Revenue from Contracts with Customers*, with ED 70, *Revenue with Performance Obligations*

Section	Paragraphs in IFRS 15	Paragraphs in ED 70	Explanation of Key Differences
Objective, Scope and Definitions	1-8, Appendix A (No AG)	1-7 AG2-AG25	Provided additional guidance on binding arrangements and purchasers.
Recognition: Identifying the Binding Arrangement (Step 1)	9-21 (No AG)	8-20 AG26-AG31	Modified requirements for the recognition of revenue for consideration received from a purchaser then not all the criteria for accounting for a binding arrangement using the five-step revenue recognition model have been met. Provided additional guidance on probability of collection of consideration.
Recognition: Identifying the Performance Obligations (Step 2)	22-30 (No AG)	21-29 AG32-AG42	Provided additional guidance on identification of performance obligations.
Recognition: Satisfaction of Performance Obligations (Step 5)	31-45 B2-B19	30-44 AG43-A60	No substantive changes from IFRS 15.
Measurement: Determining the Transaction Consideration (Step 3)	46-72 B20-B27	45-71 AG61-AG70	Additional guidance on transactions with components within the scope of both ED 70 and ED 71 was added. No other substantive changes from IFRS 15.
Measurement: Allocating the Transaction Consideration to Performance Obligations (Step 4)	73-90 B28-B51	72-89 AG71-AG99	Added guidance on the determination of stand-alone price when market information is not available. No other substantive changes from IFRS 15.
Binding Arrangement Costs	91-104 (No AG)	90-103 (No AG)	No substantive changes from IFRS 15.
Presentation	105-109 (No AG)	104-108 (No AG)	No substantive changes from IFRS 15.

Disclosure	110-129 B87-B89	109-130 AG137-AG139	Added disclosure requirements for performance obligations an entity is compelled to satisfy regardless of the purchaser's ability or intention to pay. Also added guidance on disaggregation of revenue disclosures. No other substantive changes from IFRS 15.
Other Application Issues	B52-B86	AG100-AG136	No substantive changes from IFRS 15.
Subsequent Measurement of Non-Contractual Receivables	N/A	AG140-AG141	Additional guidance was added: as a binding arrangement may include items which are not contracts, these arrangements may result in receivables which do not meet the definition of a financial instrument.
Illustrative Examples	IE1-IE327	IE1-IE357	Examples which have little/no applicability to the public sector were removed and public sector-specific examples were added.

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Comparison of ED 71, *Revenue without Performance Obligations*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

(A section-by-section comparison was not possible, as the existing structure of IPSAS 23 was changed significantly to align with other recently issued IPSAS.)

Topic	IPSAS 23	ED 71
Classification of Revenue Transactions	Classify by whether the transaction is Exchange or Non-Exchange	Classify by whether the transaction has Performance Obligations
Recognition of Revenue	Recognition based on existence and satisfaction of conditions	Recognition based on existence and satisfaction of present obligations
Measurement	Fair value	Transaction price, which includes fair value in certain circumstances
Guidance on Specific Issues	Examples regarding specific transactions such as debt forgiveness, bequests, gifts and donations included in the core text and Implementation Guidance	All examples on specific transactions moved to Illustrative Examples. General guidance on Capital Transfers, Appropriations, and Enforceability added to core text and Application Guidance
Disclosure	Required disclosures of quantitative information regarding non-exchange revenue by major classes and related liabilities, as well as certain qualitative information such as the accounting policies adopted, basis for measurement, and nature and type of major classes of revenue.	Expanded disclosures to align with the requirements of IFRS 15 and ED 70