New Zealand Accounting Standards Board

MEETING PACK

for

NZASB Meeting - 122 Public

Thursday, 10 April 2025

9:00 am (NZST)

Held at:

Virtual

Virtual

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INDEX

AGENDA

NZASB MEETING - 122 PUBLIC

Name:	New Zealand Accounting Standards Board
Date:	Thursday, 10 April 2025
Time:	9:00 am to 3:00 pm (NZST)
Location:	Virtual, Virtual
Notes:	Attending this meeting: NZASB Board Members, External Reporting Board Accounting Team Members, Chief Executive of External Reporting Board

1. Non-Public Session

1.1 Non-Public Session 9:00 am (60 min)

2. Non-Public Session

2.1 Non-Public Session

3. NZ IFRS 18 domestic consequential amendments

3.1 NZ IFRS 18 domestic consequential amendments 10:00 am (30 min)

For Decision

Supporting Documents:

4. Break

4.1 Break 10:30 am (15 min)

5. Contracts Referencing Nature-dependent Electricity - Amendments

5.1 Contracts Referencing Nature-dependent Electricity - Amendments 10:45 am (30 min)

For Decision

Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

Supporting Documents:

6. Amendments to XRB A1

6.1 Amendments to XRB A1 — 11:15 am (30 min)

For Decision

5.1c Late Paper

Supporting Documents:

7. PBE Policy Approach – IPSAS 50

7.1 PBE Policy Approach - IPSAS 50 — 11:45 am (30 min)

For Decision

PBE Policy Approach – IPSAS 50 *Exploration and Evaluation of Mineral Resources and Stripping Costs in the Production Phase of a Surface Mine*

Supporting Documents:

8. Lunch

8.1 Lunch — 12:15 pm (30 min)

9. PBE IPSAS 47 Revenue & PBE IPSAS 48 Transfer Expenses

9.1 Outreach plan — 12:45 pm (45 min)

For Discussion

Supporting Documents:

10. Service Performance Reporting

10.1 Update & outreach plan

1:30 pm (20 min)

For Noting

11. Non-Public Session

11.1 Non-Public Session

1:50 pm (70 min)

12. Close Meeting

12.1 Close the meeting

Next meeting: NZASB Meeting - 11 Jun 2025, 9:00 am

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date: 27 March 2025

To: NZASB Members

From: Carly Berry

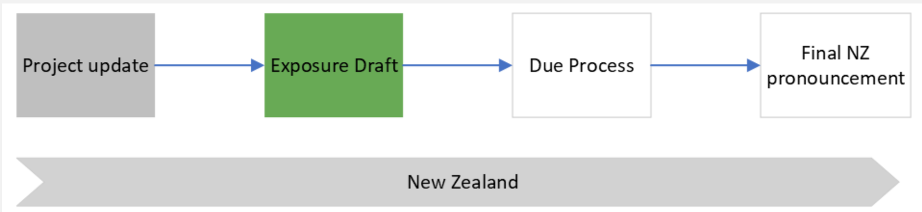
Subject: **Amendments to for-profit domestic accounting standards due to NZ IFRS 18 *Presentation and Disclosure in Financial Statements***

COVER SHEET

Project priority and complexity

Project purpose	Consider the impact of NZ IFRS 18 on the presentation and disclosure requirements in for-profit domestic standards – i.e., FRS-42 *Prospective Financial Statements*, FRS-43 *Summary Financial Statements* and FRS-44 *New Zealand Additional Disclosures* – and develop amendments to these standards for public comment.
Cost/benefit considerations	We consider the benefits for users and preparers outweigh the costs for preparers, as these proposed amendments will provide consistency between the presentation of historical financial statements and the presentation of other financial statements. This will help users to compare and understand financial information, as well as assist with preparers' reporting processes.
Project priority	**Medium** NZ IFRS 18 is mandatory from 1 January 2027 and will have a significant impact on the presentation of financial statements of for-profit entities. It is important to ensure the presentation requirements for other types of reporting work together with the NZ IFRS 18 requirements, to ensure useful information is provided to users for their decision-making.

Overview of agenda item

<table>
<tr><td>Project status</td><td>
</td></tr>
<tr><td>Board action required</td><td>Medium complexity

CONSIDER and AGREE on the proposed amendments.
APPROVE the Exposure Draft and consultation document.
PROVIDE FEEDBACK on the outreach plan.
</td></tr>
</table>

Recommendations[1]

1. The Board is asked to:

    (a) **CONSIDER** and **AGREE** on the recommended amendments with respect to:

        (i) FRS-42 *Prospective Financial Statements*

        (ii) FRS-43 *Summary Financial Statements*

        (iii) FRS-44 *New Zealand Additional Disclosures*

        collectively referred to as 'for-profit domestic standards' throughout this memo.

    (b) **APPROVE** the draft Exposure Draft (ED) *Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18*, as set out in agenda item 3.1b;

    (c) **APPROVE** the consultation document to support the ED, as set out in agenda item 3.1c; and

    (d) **PROVIDE FEEDBACK** on the proposed outreach plan.

Structure of this memo

2. The sections in this memo are:

    (a) Background

    (b) Scope of this project

    (c) Assessing the impact of NZ IFRS 18 on FRS-42

    (d) Assessing the impact of NZ IFRS 18 on FRS-43

    (e) Assessing the impact of NZ IFRS 18 on FRS-44

    (f) Consultation and next steps

3. This memo should be read in conjunction with the draft ED in agenda item 3.1b.

Background

4. The Board approved NZ IFRS 18 for issue at its May 2024 meeting. NZ IFRS 18 replaces NZ IAS 1 *Presentation of Financial Statements* when applied from its mandatory date of 1 January 2027 (or earlier, as permitted). NZ IFRS 18 aims to improve how information is communicated in the financial statements by:

    (a) requiring additional defined subtotals in the statement of profit or loss – to make entities' financial performance easier to compare and provide a consistent starting point for investors' analysis.

    (b) requiring disclosures about management-defined performance measures – to increase discipline over their use and transparency about their calculation.

    (c) adding new principles for grouping (aggregation and disaggregation) of information.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

5. Appendix D of NZ IFRS 18 contains consequential amendments to other NZ IFRS, including the for-profit domestic standards. However, to support the timely publication of NZ IFRS 18, the amendments to those standards were restricted to:

   (a) updating references from NZ IAS 1 to NZ IFRS 18 or NZ IAS 8 *Basis of Preparation of Financial Statements* (as appropriate); and

   (b) updating for the amended full names of NZ IFRS[2], NZ IAS 8 and NZ IFRS 1[3].

6. The proposed amendments that the Board is asked to consider at this meeting are not consequential in nature – rather, they are amendments to for-profit domestic standards to enhance financial reporting overall.

Scope of this project

7. This project considers the extent of the impact of NZ IFRS 18 on the for-profit domestic accounting standards. The table below sets out a summary of the objective of each standard.

FRS-42	• Establishes principles and specific minimum disclosures for entities that present general purpose prospective financial statements. • Applies when entities are required, by legislation or regulation, to present general purpose prospective financial statements that comply with generally accepted accounting practice (GAAP)
FRS-43	• Specifies the requirements for single and multi-period summary financial statements, which present information at a reduced level from that contained in the full financial statements. • Summary financial statements may be required by legislation, or they may be voluntarily prepared by an entity.
FRS-44	• Intends to meet the information needs of users who require New Zealand-specific information not contained in IFRS Accounting Standards as adopted in New Zealand.

8. This project only considers the impact of NZ IFRS 18 on the for-profit domestic standards. Therefore, we have not performed a comprehensive review of these standards – for example, we have not considered the continuing appropriateness of:

   (a) the scope of the standards;

   (b) the guidance in FRS-42 on the determination of assumptions underlying the prospective financial statements; nor

   (c) the disclosures required by FRS-44, beyond those directly impacted by NZ IFRS 18.

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[2] i.e., New Zealand equivalents to IFRS Accounting Standards

[3] i.e., First-time Adoption of New Zealand Equivalents to IFRS Accounting Standards

Summary of key impacts

9. As noted above, NZ IFRS 18 introduces three key areas of new presentation and disclosures requirements. We have proposed amendments to the domestic for-profit standards in these three areas as follows:

Topic	FRS-42 *Prospective Financial Statements*	FRS-43 *Summary Financial Statements*
Subtotals and classification in the statement of profit and loss	Included	Included but limited
Disclosure of management-defined performance measures	Included but limited	Included but limited
Grouping (aggregation and disaggregation) of information	Included	Not included

Assessing the impact of NZ IFRS 18 on FRS-42 *Prospective Financial Statements*

Objective of prospective financial statements

10. Paragraph 26 of FRS-42 states that an entity shall present and disclose information in the prospective financial statements that enable users of those statements to evaluate the entity's financial prospects and <u>*to assess actual financial results prepared in future reporting periods against the prospective financial statements*</u>.

11. Considering this objective, we aim to ensure that entities present and disclose information in the prospective financial statements in a manner that is consistent with the historical financial statements that will be subsequently prepared under NZ IFRS 18 (for the prospective period).

12. An overarching principle in NZ IFRS 18 is that entities need only present or disclose material information. We noted that the objective in paragraph 26 does not explicitly reference materiality, therefore we have proposed to amend paragraph 26 to emphasise this key principle. This will ensure that both prospective and historical financial statements will be presented with a similar overarching consideration of materiality.

13. We have proposed to include paragraph BC10 in FRS-42 to explain the above.

New requirements introduced by NZ IFRS 18

14. We have considered the key new requirements introduced by NZ IFRS 18 and incorporated these into FRS-42 in a manner appropriate in the context of prospective financial reporting. Our assessment is set out in Table 1 below.

Table 1

Topic	NZ IFRS 18 para refs	Assessment	FRS-42 para refs
Roles of the primary financial statements and the notes	15–18, B6–B7	For the purposes of meeting the objective in paragraph 26, it is necessary to provide entities with guidance on where material information should be presented and disclosed in the prospective financial statements. The NZ IFRS 18 requirements have been adapted to fit with the objective in paragraph 26.	28C, 28D
Aggregation and disaggregation principles	41–43, B16–B26, B78–B79	For the purposes of meeting the objective in paragraph 26, it is necessary to provide entities with guidance on how to aggregate and disaggregate prospective financial information in the prospective financial statements. The NZ IFRS 18 requirements have been adapted to fit with the objective in paragraph 26. We have proposed including paragraphs BC11–BC13 to explain the reasoning behind the inclusion of these principles in FRS-42.	28E–28H, C1–C11
Categories of income and expenses	47–68, 88, B29–B76	For the purposes of meeting the objective in paragraph 26, it is necessary to require entities to classify their income and expenses in line with NZ IFRS 18 requirements.	31A 33A
Main business activities	49–51	To meet the objective in paragraph 26, it is necessary to require entities to assess whether they have one or both of the main business activities specified by NZ IFRS 18 for the purposes of classifying their income and expenses. It would be useful for entities to disclose whether they expect to engage in one or both of the specified main business activities during the period of the prospective financial statements, as this provides users with an understanding of the entity and how it has classified its income and expenses in the prospective statement of profit or loss. The requirement in paragraph 51(c)(ii) is not necessary in the context of prospective financial statements – this requirement aids comparability, but would be difficult for preparers to implement when thinking about prospective operations. The level of comparability provided by the proposed amendments is likely to be sufficient to meet the objective in paragraph 26.	31B, 47
Totals and subtotals of income and expenses	69-74, 86–87, B86–B87	For the purposes of meeting the objective in paragraph 26, it is necessary to require entities to present the mandatory NZ IFRS 18 totals and subtotals in the prospective statement of profit or loss. Note – the mandatory totals and subtotals required in the statement presenting comprehensive income have been carried over from NZ IAS 1 into NZ IFRS 18. We consider it appropriate to better align the requirements in FRS-42 with those in NZ IFRS 18 in this regard and therefore have proposed including paragraphs 33B and 33C and deleting paragraph 33.	31C 33B–33C
Classification of operating expenses and disclosure of	78-85, B80–B85	In line with our recommendations relating to categorisation of income and expenses, it is necessary to specify that operating expenses may be classified by nature or function (or both – which is new to NZ IFRS 18). Additionally, we propose to require the disclosure of the information in paragraph 83 of NZ IFRS 18, as this is deemed to be useful information in the historical financial statements (and therefore a comparison with prospective financial information would likely be useful for users) and would not be costly for preparers to disclose when preparing the prospective	31D, 64B–64C

Topic	NZ IFRS 18 para refs	Assessment	FRS-42 para refs
specific types of expenses by nature		financial statements. The exemption in paragraph 84 in NZ IFRS 18 has been included in the amending standard as well, to prevent entities from having to disclose more information than is necessary.	
Management-defined performance measures (MPMs)	117–125, B113–B142	The requirements for MPMs are applicable to prospective financial statements as well, as this is useful information for users. Paragraphs BC14–BC16 explain the extent to which the required disclosures for MPMs in NZ IFRS 18 should apply to prospective financial statements, as well as the reasoning for the proposed deletion of paragraph 40.	64A

Other proposed amendments to FRS-42

15. In addition to the proposed amendments discussed above, we have proposed to:

(a) update the wording throughout FRS-42 to refer to 'present' or 'disclose', as applicable – NZ IFRS 18 makes a clear distinction between presentation and disclosure, therefore these wording changes have been proposed to align with NZ IFRS 18.

(b) align the descriptions of the components of prospective financial statements with those specified in NZ IFRS 18, to the extent applicable, for consistency with historical financial statements – see paragraphs 28–28B in the draft ED.

(c) update footnote 1 on paragraph 16 of FRS-42, to refer to the *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework*) – this is to ensure that information in both the historical and prospective financial statements is presented and disclosed using the same conceptual framework principles.

(d) include offsetting requirements, aligned with NZ IFRS 18, to ensure consistency in how amounts are presented in both the historical and prospective financial statements – see paragraph 28I in the draft ED.

(e) make minor wording changes to align with the requirements in paragraph 96 and paragraph 104 of NZ IFRS 18 relating to the statement of financial position – see paragraphs 29A and 29B in the draft ED.

(f) update the requirements for the prospective statement of cash flows, to align with the consequential amendments to NZ IAS 7 *Statement of Cash Flows* due to NZ IFRS 18 – see paragraph 38 in the draft ED.

Question for the Board

Q1. Does the Board **AGREE** with our recommended amendments to FRS-42?

Assessing the impact of NZ IFRS 18 on FRS-43 *Summary Financial Statements*

Objective of summary financial statements

16. Paragraph 1 of FRS-43 states that summary financial statements, which cover an annual reporting period or periods, are prepared for the users of general-purpose financial statements, and present and disclose information at a reduced level from that contained in the full financial statements.

17. Paragraph 11A states that an entity shall disclose sufficient information in its summary financial statements to enable a reader to obtain *a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased*.

18. Considering the above, we aim to ensure that the requirements in FRS-43 enable users to obtain a broad understanding of the entity's financial position, performance and cash flows through summarised information that an entity has derived from its full financial statements prepared under NZ IFRS 18.

19. We have considered the role of the primary financial statements in the full financial statements – which is to provide structured summaries of their recognised assets, liabilities, equity, income, expenses and cash flows that are useful to users for, among other things, obtaining an understandable overview of those items. Summary financial information prepared under FRS-43 is, therefore, a summary of information that has already been summarised in accordance with the requirements of NZ IFRS 18.

20. We have proposed that the objective in paragraph 11A remains appropriate, as a 'broad understanding' would result from a more high-level overview, compared to the structured summaries presented in the full financial statements. In essence, we have sought to ensure that summary financial statements remain more summarised that full financial statements.

21. We note that an overarching principle in NZ IFRS 18 is that entities need only present or disclose material information. The objective in paragraph 11A does not explicitly reference materiality, therefore we have proposed to amend that paragraph to emphasise this key principle.

22. We have also proposed to amend paragraph 11B to clarify how an entity applies the concept of materiality in the context of the summary financial statements. This will ensure that both summary and historical financial statements will be presented with a similar overarching consideration of materiality.

23. We have proposed including paragraphs BC2–BC5 in FRS-43 to explain the above.

New requirements introduced by NZ IFRS 18

24. We have considered the key new requirements introduced by NZ IFRS 18 and incorporated these into FRS-43 in a manner appropriate in the context of summary financial reporting. Our assessment is set out in Table 2 below.

Table 2

Topic	NZ IFRS 18 para refs	Assessment	FRS-43 para refs
Roles of the primary financial statements and the notes	15–18, B6–B7	No need to explain these roles in FRS-43, as the determination of where material information is presented or disclosed is made for the full financial statements.	N/A
Aggregation and disaggregation principles	41–43, B16–B26, B78–B79	No need to specify these principles in the FRS-43, as the determination of appropriate aggregation and disaggregation of material information is made for the full financial statements.	N/A
Categories of income and expenses	47–68, 88, B29–B76	No need to discuss this categorisation in FRS-43, as the classification of income and expenses occurs in the full financial statements.	N/A
Main business activities	49–51	It would be appropriate for entities to include the disclosures required in paragraph 51(a)-(b) relating to main business activities in the summary financial statements, as this provides useful context to the summary statement of profit or loss. Similarly, it would be useful for users to know whether (and when) the entity's assessment of whether it has a main business activity has changed (paragraph 51(c)(i)). The information required by paragraph 51(c)(ii) is not necessary for the summary financial statements – users can refer to the full financial statements for this information. For multi-period summaries, it is reasonable for the information required for single period summaries to be given for each period in the summary.	32A, 32B, 37CA
Totals and subtotals of income and expenses	69-74, 86–87, B86–B87	In the interests of specifying minimum requirements for the presentation of the summary financial statements (to provide entities with a structure to follow as well as providing an appropriate level of summarisation), it is necessary to require entities to present, at a minimum, the mandatory totals and subtotals from the full statement of profit or loss and the full statement presenting comprehensive income. Similarly, it is necessary to require entities to present any other subtotals they have used in the full financial statements. This will give users a broad understanding of the entity's performance without requiring the full financial statements.	24B, 24D, 25D
Classification of operating expenses and disclosure of specific types of	78-85, B80–B85	Classification of operating expenses occurs in the full financial statements. Summarised financial information does not need to include the level of detail required by paragraph 83 of NZ IFRS 18 (i.e. disclosure of the five types of operating expenses by nature). Users can refer to the full financial statements if this information is needed.	N/A

Topic	NZ IFRS 18 para refs	Assessment	FRS-43 para refs
expenses by nature			
Management-defined performance measures (MPMs)	117–125, B113–B142	To meet the objective in paragraph 11A, we consider that: • an entity need only disclose the label and amount for each MPM. Users can refer to the full financial statements for further information on how the measure is calculated and explanations of why the measure provides useful information about the entity's financial performance. • an entity need not disclose the reconciliation required by paragraph 123(c) of NZ IFRS 18, as users can refer to the full financial statements for more information on the relationship between MPMs and the relevant NZ IFRS total or subtotal. • an entity should disclose information relating to a change, addition or cessation (and its effects) to alert users to information that is likely to impact on their broad understanding of the entity's financial performance and may not be consistent with information in previous summary financial statements or full financial statements. Paragraphs BC6–BC7 explain this reasoning. For multi-period summaries, it is reasonable for this information to be given for each period in the summary.	32C, 32D, 37CB

Other proposed amendments to FRS-43

25. In addition to the proposed amendments discussed above, we have proposed to:

(a) update the wording throughout FRS-43 to refer to 'present' or 'disclose', as applicable – NZ IFRS 18 makes a clear distinction between presentation and disclosure, therefore these wording changes have been proposed to align with NZ IFRS 18.

(b) align the descriptions of the components of summary financial statements with those specified in NZ IFRS 18, to the extent applicable, for consistency with full financial statements – see paragraphs 10–10D in the draft ED.

(c) make minor wording changes to align with the requirements in paragraph 96 and paragraph 104 of NZ IFRS 18 relating to the statement of financial position – see paragraphs 22A–22B in the draft ED.

(d) retain some of the minimum line items required in paragraph 24 of FRS-43, but to prohibit entities from presenting any of these line items if the full financial statements do not separately present these line items – see paragraph 24A, 25B and 25C.

(e) delete the definition of 'general purpose financial statements' from Appendix A of FRS-43, as this definition is inconsistent with the definition in NZ IFRS 18.

(f) make other minor wording changes where necessary to align with NZ IFRS 18.

Question for the Board

Q2. Does the Board **AGREE** with our recommended amendments to FRS-43?

Assessing the impact of NZ IFRS 18 on FRS-44 *New Zealand Additional Disclosures*

26. As noted in paragraph 5, we made consequential amendments to FRS-44 when NZ IFRS 18 was issued – but these were limited to minor amendments. As part of this project, we have performed a more substantive assessment of the impact of NZ IFRS 18 on FRS-44 and identified one affected disclosure requirement – paragraph 10, which states that:

> *When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to profit or loss.*

27. We note that NZ IFRS 18 requires entities to present an operating profit or loss subtotal. We also note that paragraph 18 of NZ IAS 7 (as amended by NZ IFRS 18) requires operating profit or loss to be adjusted for certain items when the indirect method is used to report cash flows from operating activities.

28. We have proposed to maintain consistency with these other NZ IFRSs and amend paragraph 10 of FRS-44 to require a reconciliation of net cash flow from operating activities to *operating profit or loss* (rather than profit or loss)

Question for the Board

Q3. Does the Board **AGREE** with our recommended amendment to paragraph 10 of FRS-44?

Consultation and next steps

29. Subject to the Board's approval, we intend to publish the ED in mid-April 2025. We consider the standard 90-day consultation period to be appropriate and have not identified any reason to conclude otherwise. The consultation period would therefore close in mid-July 2025, and we plan to discuss feedback received with the Board at the August 2025 meeting.

30. Given the extent of the proposed amendments to the for-profit domestic standards, we have also drafted a consultation document to accompany the ED (see agenda item 3.1b).

31. We note that the consultation on RDR concessions for NZ IFRS 18 will be open at the same as this consultation. We believe the proposals in this consultation would be of interest to Tier 1 entities (or entities that will want to report in Tier 1) as opposed to Tier 2 entities, who would not prepare prospective or summary financial statements.

32. We plan to inform stakeholders of this consultation through the following ways:
    (a) Develop a separate webpage for the consultation, with links to this page included on our consultation page as well as on the NZ IFRS 18 webpage.
    (b) Include a link to the consultation in Accounting Alerts and Pitopito Kōrero during the consultation period.
    (c) Inform TRG members of the consultation and encourage them to share it with their clients.

Questions for the Board

Q4. Does the Board have any **FEEDBACK** on the proposed outreach plan and ideas on how to reach entities preparing prospective or summary financial statements?

Q5. Does the Board **APPROVE** the Exposure Draft for issue (Agenda Item 3.1b)?

Q6. Does the Board **APPROVE** the consultation document for issue (Agenda Item 3.1c)?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Exposure Draft

Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18

Proposed amendments to FRS-42, FRS-43 and FRS-44

Submissions close on 16 July 2025

April 2025

NZASB EXPOSURE DRAFT 2025-[x]

Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18

This [draft] Tier 1 and Tier 2 for-profit amending Standard introduces amendments to the following for-profit accounting standards due to NZ IFRS 18 *Presentation and Disclosure in Financial Statements,* issued on 23 May 2024*:*

- FRS-42 *Prospective Financial Statements*
- FRS-43 *Summary Financial Statements*
- FRS-44 *New Zealand Additional Disclosures*

In finalising this amending Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This [draft] amending Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The [draft] amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

The [draft] amending Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs C1–C4 in Part C of this [draft] amending Standard.

AMENDMENTS TO FOR-PROFIT DOMESTIC ACCOUNTING STANDARDS DUE TO NZ IFRS 18

ISBN

CONTENTS

Part A – Introduction

This [draft] amending Standard sets out amendments to:

- FRS-42 *Prospective Financial Statements*;
- FRS-43 *Summary Financial Statements*; and
- FRS-44 *New Zealand Additional Disclosures.*

These amendments have been made to ensure that the requirements in these standards are consistent, where appropriate, with those in NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities. A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

Part C – Commencement and application

C1 An entity shall apply this amending Standard in accordance with the commencement and application date provisions in paragraphs C2–C4. An entity that applies this amending Standard to an 'early adoption accounting period' shall disclose that fact in the notes.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

C2 This amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act)

C3 The accounting periods in relation to which this amending Standard commences to apply are:

(a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

(b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date.**

C4 In paragraph C3:

early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period

early adoption accounting period means an accounting period of the early adopter:

(a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) for which the early adopter:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period; and

(iii) applies NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

mandatory date means 1 January 2027.

Part D – Amendments to FRS-42 *Prospective Financial Statements*

Paragraphs 1, 26, 28, 33, 37, 38, 47 and 60 are amended. Paragraphs 27A–27D, 28A–28J, 29A, 29B, 31A–31D, 33A–33C, 64A–64C and 72J are added. Paragraphs 27, 29, 30, 31, 32, 33, 39 and 40, 41 and 44–46 are deleted. New text is underlined and deleted text is struck through. Text that has been relocated is double underlined and deleted text that has been relocated is double struck through.

Objective

1 The objective of this Standard is to establish principles and specify minimum presentation and disclosure~~s~~ requirements for entities that are required by legislation or regulation to present *general purpose prospective financial statements* (also referred to as "*prospective financial statements*") in accordance with generally accepted accounting practice. This Standard requires that an entity presenting general purpose prospective financial statements presents a complete set of prospective financial statements using the best information that could reasonably be expected to be available and which meet certain qualitative characteristics.

...

Prospective financial reporting

~~Presentation of prospective financial statements~~

26 An entity shall present and disclose material information in the~~that presents~~ prospective financial statements to~~shall present and disclose information that~~ enables users of those statements to evaluate the entity's financial prospects and to assess actual financial results prepared in future reporting periods against the prospective financial statements.

27 ~~Information presented on the face of prospective financial statements is usually presented as a line item. However, additional disclosures may be used to present information on the possible range for an individual item. When a range is used the band shall not be so broad as to render the information meaningless to users and the assumptions used shall be clearly linked to the upper and lower limits of the range. Where prospective financial information has a high level of uncertainty associated with it, a range is more likely to present useful information.~~[Deleted]

Accounting policies

27A Prospective financial statements shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.

Periods covered by prospective financial statements

27B The reporting periods covered by prospective financial statements shall coincide with those for which interim or annual historical general purpose financial statements will subsequently be presented.

27C When an entity presents historical general purpose financial statements for a period for which prospective financial statements have previously been presented, the comparative requirements in FRS-44 *New Zealand Additional Disclosures* (paragraphs 11.1 and 11.2) are relevant. Where legislation or regulation requires prospective financial statements to be prepared for a reporting period which differs from the period for which historical general purpose financial statements will subsequently be presented, an entity is compelled to comply with such legislation or regulation. However, in such cases the entity may be able to comply with both this Standard and the relevant legislation or regulation by presenting prospective financial statements for the balance of the current reporting period and for the subsequent interim or annual reporting period.

27D The number of reporting periods covered by prospective financial statements may vary considerably depending on the relevant legal requirements and the purpose and objective for which the prospective financial statements are prepared. In general, the greater the number of future reporting periods included in prospective financial statements, the more unreliable and uncertain the prospective financial statements become. Entities should exercise caution about publishing prospective financial statements for periods beyond that required by legislation or regulation.

Components of prospective financial statements

28 **A~~An entity shall present a~~ complete set of prospective financial statements comprises~~, which shall include the following~~:**

(a) a prospective statement of financial position;

(b) a prospective statement (or statements) of financial performance~~profit or loss and other comprehensive income~~;

(c) a prospective statement of changes in equity;

(d) a prospective statement of cash flows; and

(e) notes for the prospective reporting period~~, comprising a summary of material accounting policy information, significant assumptions and any other relevant information underlying (a) to (d)~~.

28A An entity shall present its prospective statement(s) of financial performance as either:

(a) a single prospective statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections – if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or

(b) a prospective statement of profit or loss and a separate prospective statement presenting comprehensive income that shall begin with profit or loss – if this option is chosen, the prospective statement of profit or loss shall immediately precede the prospective statement presenting comprehensive income.

28B In this Standard:

(a) the profit or loss section described in paragraph 28A(a) and the prospective statement of profit or loss described in paragraph 28A(b) are referred to as the prospective statement of profit or loss; and

(b) the other comprehensive income section described in paragraph 28A(a) and the prospective statement presenting comprehensive income described in paragraph 28A(b) are referred to as the prospective statement presenting comprehensive income.

28C The role of the statements listed in paragraph 28(a)–(d) is to provide structured summaries of an entity's prospective assets, liabilities, equity, income, expenses and cash flows, that are useful to users of the prospective financial statements for:

(a) obtaining an understandable overview of the entity's prospective assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons with actual financial results prepared in future reporting periods; and

(c) identifying items or areas about which users of the prospective financial statements may wish to seek additional information in the notes.

28D The role of the notes is to provide material information necessary:

(a) to enable users of the prospective financial statements to understand the line items presented in the statements listed in paragraph 28(a)–(d); and

(b) to supplement those statements with additional information to achieve the objective of prospective financial statements in paragraph 26.

Principles of aggregation and disaggregation

28E For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the statements listed in paragraph 28(a)–(d). Other material information is disclosed in the notes. An entity shall (see paragraphs C1–C8):

(a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;

(b) disaggregate items based on characteristics that are not shared;

(c) aggregate or disaggregate items to present line items in the statements listed in paragraph 28(a)–(d) that fulfils the role of those statements (see paragraph 28C);

(d) aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes (see paragraph 28D); and

(e) ensure that aggregation and disaggregation in the financial statements do not obscure material information.

28F Applying the principles in paragraph 28E, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 28E(c), an entity does not present material information in the statements listed in paragraph 28(a)–(d), it shall disclose the information in the notes.

28G An entity shall label and describe items presented or disclosed in the prospective financial statements in a way that faithfully represents the characteristics of the item (see paragraphs C9–C11). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of the prospective financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.

28H Subject to paragraphs 28E–28G, an entity shall consider the requirements in paragraphs 75, 89 and 103 of NZ IFRS 18 when presenting line items in the statements listed in paragraph 28(a)–(d).

Offsetting

28I Consistent with paragraphs 44 and 45 of NZ IFRS 18, an entity shall not offset assets and liabilities or income and expenses in the prospective financial statements, unless required or permitted by an NZ IFRS.

Range for individual line items

28J Where prospective financial information has a high level of uncertainty associated with it, additional disclosures may provide information on the possible range for an individual item. When necessary to meet the objective in paragraph 26, information on the possible range for an individual line item shall be disclosed in the notes. When a range is used the band shall not be so broad as to render the information meaningless to users and the assumptions used shall be clearly linked to the upper and lower limits of the range.

Presentation

Prospective statement of financial position

~~29 Except as provided in paragraph 30, the prospective statement of financial position shall separately disclose:~~

~~(a) current assets;~~

~~(b) non-current assets;~~

~~(c) current liabilities;~~

~~(d) non-current liabilities; and~~

~~(e) equity, including separate disclosure of non-controlling interests.~~[Deleted]

~~30 All assets and liabilities shall be presented broadly in order of liquidity when a presentation based on liquidity provides information that is reliable and is more relevant and when the entity intends to present its assets and liabilities in order of liquidity in its historical financial statements.~~[Deleted]

29A An entity shall present its assets and liabilities in the prospective statement of financial position in line with the method of presentation which will subsequently be adopted in its historical financial statements of the same reporting period – that is, using:

(a) a current/non-current classification;

(b) a presentation based on liquidity; or

(c) a mix of the methods in (a) and (b).

29B In addition to the information required by paragraph 29A, an entity shall present in the prospective statement of financial position:

(a) issued capital and reserves attributable to owners of the parent; and

(b) non-controlling interests.

~~31 As a minimum, the prospective statement of profit or loss and other comprehensive income shall separately disclose:~~

~~(a) revenue;~~

~~(b) finance costs;~~

~~(c) depreciation and amortisation expense;~~

~~(d) share of the profit or loss of associates and joint ventures accounted for using the equity method;~~

~~(e) tax expense;~~

~~(f) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;~~

~~(g) profit or loss;~~

~~(h) each component of other comprehensive income classified by nature (excluding amounts in (i));~~

~~(i) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and~~

~~(j) total comprehensive income.~~[Deleted]

~~32~~ ~~In addition to the information required by paragraph 31, an entity shall present, either on the face of the statement of profit or loss and other comprehensive income or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.~~[Deleted]

Prospective statement of profit or loss

31A An entity shall classify income and expenses included in the prospective statement of profit or loss in one of the following categories, in accordance with the requirements in paragraphs 47–68 of NZ IFRS 18:

(a) the operating category;

(b) the investing category;

(c) the financing category;

(d) the income taxes category; and

(e) the discontinued operations category.

31B For the purposes of applying paragraph 31A, an entity shall assess whether it expects to invest in assets or provide financing to customers as a main business activity for the period of the prospective financial statements, in accordance with the requirements in paragraph 49 of NZ IFRS 18.

31C At a minimum, an entity shall present the following totals and subtotals in the prospective statement of profit or loss for:

(a) operating profit or loss;

(b) profit or loss before financing and income taxes; and

(c) profit or loss.

31D In the operating category of the prospective statement of profit or loss, an entity shall classify and present expenses in line items using one or both of these characteristics:

(a) the nature of expenses; or

(b) the function of the expenses within the entity.

Prospective statement presenting comprehensive income

~~33~~ ~~The following items shall be disclosed in the prospective statement presenting comprehensive income as allocations of profit or loss for the period:~~

~~(a) profit or loss for the period attributable to:~~

~~(i) non-controlling interest; and~~

~~(ii) owners of the parent;~~

~~(b) total comprehensive income for the period attributable to:~~

~~(i) non-controlling interest; and~~

~~(ii) owners of the parent.~~[Deleted]

33A An entity shall classify income and expenses included in the prospective statement presenting comprehensive income in one of two categories:

(a) income and expenses that will be reclassified to profit or loss when specific conditions are met; and

(b) income and expenses that will not be reclassified to profit or loss.

33B An entity shall present in the prospective statement presenting comprehensive income, totals for:

(a) profit or loss;

(b) other comprehensive income; and

(c) comprehensive income, being the total of (a) and (b).

33C An entity shall present an allocation of prospective comprehensive income for the reporting period, attributable to:

(a) non-controlling interests; and

(b) owners of the parent.

Prospective statement of changes in equity

...

Prospective statement of cash flows

37 The prospective statement of cash flows~~cashflows~~ shall separately present~~disclose~~ major classes of gross cash receipts and gross cash payments arising from each of the following categories of cash flows, except to the extent that such cash flows are reported on a net basis, as permitted by the relevant standard:

(a) cash flows from ~~or used in~~ operating activities;

(b) cash flows from ~~or used in~~ investing activities; and

(c) cash flows from ~~or used in~~ financing activities.

38 In the prospective statement of cash flows:

(a) cash flows from interest and dividends received and paid shall each be presented~~disclosed~~ separately. Each shall be classified in a consistent manner from period to period ~~as either operating, investing or financing activities~~ in accordance with NZ IAS 7 *Statement of Cash Flows* ~~*Statements*~~;

(b) cash flows arising from taxes on income shall be separately presented~~disclosed~~ and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities;

(c) the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities; and

(d) the net increase or decrease in cash and cash equivalents shall be separately presented~~disclosed.~~

~~39~~ ~~This Standard specifies minimum disclosures in respect of prospective financial statements. Additional disclosures are required of any item that is of such incidence and size, or of such nature, that its disclosure is necessary to explain the prospective performance, position or cash flows of the entity. An adequate description of each item shall be given to enable its nature to be understood.~~[Deleted]

~~40~~ ~~Where an entity presents prospective financial information in addition to the information reported in the prospective financial statements, the relationship of that additional information to the information reported in the prospective financial statements shall be explained. For example, where an entity presents a prospective amount for earnings before interest, tax, depreciation and revaluation movements in addition to a prospective statement of profit and loss and other comprehensive income that includes the minimum disclosures in paragraphs 31 to 33, the relationship of prospective earnings before interest, tax, depreciation and revaluation movements to the prospective profit or loss shall be explained. The explanation may be by way of reconciliation.~~[Deleted]

~~Accounting policies~~

~~41~~ **~~Prospective financial statements shall be prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.~~**[Deleted]

…

~~Periods covered by prospective financial statements~~

~~**44**~~ ~~**The reporting periods covered by prospective financial statements shall coincide with those for which interim or annual historical general purpose financial statements will subsequently be presented.**~~ [Deleted]

~~45~~ ~~When an entity presents historical general purpose financial statements for a period for which prospective financial statements have previously been presented, the comparative requirements in FRS-44 *New Zealand Additional Disclosures* (paragraphs 11.1 and 11.2) are relevant. Where legislation or regulation requires prospective financial statements to be prepared for a reporting period which differs from the period for which historical general purpose financial statements will subsequently be presented, an entity is compelled to comply with such legislation or regulation. However, in such cases the entity may be able to comply with both this Standard and the relevant legislation or regulation by presenting prospective financial statements for the balance of the current reporting period and for the subsequent interim or annual reporting period.~~[Deleted]

~~46~~ ~~The number of reporting periods covered by prospective financial statements may vary considerably depending on the relevant legal requirements and the purpose and objective for which the prospective financial statements are prepared. In general, the greater the number of future reporting periods included in prospective financial statements, the more unreliable and uncertain the prospective financial statements become. Entities should exercise caution about publishing prospective financial statements for periods beyond that required by legislation or regulation.~~[Deleted]

Disclosure

Disclosure of operations and activities

47 **An entity shall disclose the following, if not disclosed elsewhere in information published with the prospective financial statements:**

(a) **a description of the nature of the entity's current operations and its principal activities, including whether the entity currently invests in assets and/or provides financing to customers as a main business activity; and**

(b) **a description of the nature of the entity's operations and its principal activities for the period of the prospective financial statements, including whether the entity expects to invest in assets and/or provide financing to customers as a main business activity.**

…

Disclosure of accounting policies

60 **Material accounting policy information used in preparing prospective financial statements shall be disclosed in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements*~~NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~.**

…

Management-defined performance measures

64A **If an entity intends to disclose information about one or more management-defined performance measures as part of its financial results that will subsequently be prepared for the period covered by the prospective financial statements, it shall disclose:**

(a) **a description of the aspect of financial performance that, in management's view, will be communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure will provide useful information about the entity's performance.**

(b) **how the management-defined performance measure is calculated; and**

(c) **a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 31C.**

Disclosure of specific expenses classified in the operating category

64B **An entity that presents one or more line items comprising expenses classified by function in the operating category of the prospective statement of profit or loss (see paragraph 31D) shall also disclose the total for each of:**

(a) depreciation;

(b) amortisation;

(c) employee benefits;

(d) impairment losses and reversals of impairment losses; and

(e) write-downs and reversals of write-downs of inventories.

64C **Paragraph 28E requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 64B is exempt from disclosing disaggregated information about the amounts of nature expenses included in each function line item beyond the amounts specified in paragraph 64B.**

Commencement and application~~Effective date~~

...

72J *Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18*, issued in [date], amended paragraphs 1, 26, 28, 33, 37, 38, 47 and 60, added paragraphs 27A–27D, 28A–28J, 29A, 29B, 31A–31D, 33A–33C, 64A–64C, 72J and C1–C11 and deleted paragraphs 27, 29, 30, 31, 32, 33, 39, 40, 41 and 44–46. An entity shall apply those amendments when it applies NZ IFRS 18.

Appendix A

Defined terms

New text is underlined.

...

In this Standard, terms have the same meaning as in the relevant Standards applied in the preparation of historical general purpose financial statements.

...

Appendix C, the related headings and paragraphs C1–C11 are added. For ease of reading, these paragraphs have not been underlined.

Appendix C

Guidance on the application of the principles of aggregation and disaggregation

This Appendix is an integral part of the Standard.

Process of aggregation and disaggregation

C1 Financial statements (including prospective financial statements) result from entities processing, or expecting to process, large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income, expenses and cash flows.

C2 To apply the requirements in paragraph 28E, an entity shall aggregate items based on shared characteristics (that is, aggregate items that have similar characteristics) and disaggregate items based on characteristics that are not shared (that is, disaggregate items that have dissimilar characteristics). In doing so, an entity shall:

(a) identify the assets, liabilities, equity, income, expenses and cash flows that arise from individual transactions or other events;

(b) classify and aggregate assets, liabilities, equity, income, expenses and cash flows into items based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) so as to result in the presentation of line items in the statements listed in paragraph 28(a)–(d) and disclosure in the notes of items that have at least one similar characteristic; and

(c) disaggregate items based on dissimilar characteristics:

  (i) in the statements listed in paragraph 28(a)–(d), as necessary to provide useful structured summaries (as described in paragraph 28C); and

  (ii) in the notes, as necessary to provide material information (as described in paragraph 28D).

C3 An entity may apply the steps in paragraphs C2(a)–C2(c) in varying order to apply the principles of aggregation and disaggregation in paragraph 28E.

Basis of aggregation and disaggregation

C4 Paragraphs C1–C3 explain that an entity uses its judgement to aggregate and disaggregate assets, liabilities, equity, income, expenses and cash flows from individual transactions and other events based on similar and dissimilar characteristics. Paragraphs B78 and B110 in NZ IFRS 18 set out examples of characteristics an entity considers in making its judgements.

C5 The more similar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that aggregating them will fulfil the role of the primary financial statements (that is, to provide useful structured summaries as described in paragraph 28C) or the notes (that is, to provide material information as described in paragraph 28D). The more dissimilar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that disaggregating the items will fulfil the roles of the primary financial statements or the notes.

C6 The items aggregated and presented as line items shall have at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows. However, because the role of the statements listed in paragraph 28(a)–(d) is to provide useful structured summaries, line items are also likely to aggregate items that have sufficiently dissimilar characteristics that information about the disaggregated items is material.

C7 Applying paragraph 28E, an entity shall disaggregate items that have dissimilar characteristics when the resulting information is material. A single dissimilar characteristic could result in information about disaggregated items being material.

C8 For example, an entity might present in the prospective statement of financial position financial assets that comprise equity investments and debt investments separately from non-financial assets. The financial assets have dissimilar characteristics because they have different measurement bases—some are measured at fair value through profit or loss and others at amortised cost. The entity might therefore determine that to provide a useful structured summary it is necessary to present line items that disaggregate the financial assets based on those measurement bases. That disaggregation results in a line item comprising equity investments and debt investments measured at fair value through profit or loss and a line item comprising debt investments measured at amortised cost. Because equity investments are dissimilar to debt investments in that each exposes the entity to different risks, the entity would assess whether further disaggregation in the statement of financial position of financial assets measured at fair value through profit or loss into equity investments and debt investments is needed to provide a useful structured summary. If not, and if the resulting information were material, the entity would need to disclose in the notes the equity investments separately from the debt investments. In addition if, for example, the equity investments had other dissimilar characteristics, the entity would be required to disaggregate further those equity investments in the notes if the resulting information were material.

Description of items

C9 Paragraph 28G requires an entity to label and describe items presented or disclosed in a way that faithfully represents the characteristics of the item. Such items will often be aggregations of items arising from individual transactions or other events and could vary in whether they are aggregations of items for which information is material and items for which information is immaterial. Specifically:

(a) an item for which information is material could be aggregated with other items for which information is also material—an entity might provide such an aggregation to summarise information but would also be required to disclose information about each item;

(b) an item for which information is material could be aggregated with items for which information is not material—an entity would be required to provide information about disaggregated items only if immaterial information obscured the material information; or

(c) an item for which information is not material could be aggregated with other items for which information is not material—an entity might provide such an aggregation to complete a list of items and would not be required to disclose information about disaggregated items, subject to paragraph C11(b).

C10 An entity shall label items presented or disclosed as 'other' only if it cannot find a more informative label. Examples of how an entity might find a more informative label are:

(a) if an item for which information is material is aggregated with items for which information is not material, finding a label that describes the item for which information is material; and

(b) if items for which information is not material are aggregated:

(i) aggregating items that share similar characteristics and describing them in a way that faithfully represents the similar characteristics; or

(ii) aggregating items with other items that do not share similar characteristics and describing them in a way that faithfully represents the dissimilar characteristics of the items.

C11 If an entity cannot find a more informative label than 'other':

(a) for any aggregation—the entity shall use a label that describes the aggregated item as precisely as possible, for example, 'other operating expenses' or 'other finance expenses'.

(b) for an aggregation comprising only items for which information is not material—the entity shall consider whether the aggregated amount is sufficiently large that users of financial statements might reasonably question whether it includes items for which information could be material. If so, information to resolve that question is material information. Accordingly, in such cases, the entity shall disclose further information about the amount—for example:

(i) an explanation that no items for which information would be material are included in the amount; or

(ii) an explanation that the amount comprises several items for which information would not be material, with an indication of the nature and amount of the largest item.

Paragraphs BC9–BC16 (and the related headings) are added. For ease of reading, these paragraphs have not been underlined.

NZASB Basis for Conclusions on FRS-42 *Prospective Financial Statements*

...

Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18

BC9 The NZASB issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024. As a consequence, the NZASB reviewed and made amendments to the requirements of FRS-42 to ensure presentation and disclosure in prospective financial statements is consistent with the presentation and disclosure requirements applicable to historical general purpose financial statements. Paragraphs BC10–BC16 set out the NZASB's decisions relating to certain key changes to FRS-42.

BC10 The NZASB considered the objective of prospective financial statements, as set out in paragraph 26. The NZASB noted that NZ IFRS 18 states that only material information needs to be presented or disclosed in general purpose financial statements. Therefore, the NZASB amended paragraph 26 to state explicitly that the entity shall present and disclose material information in the prospective financial statements to enable users of those statements to evaluate the entity's financial prospects and to assess actual financial results prepared in future reporting periods against the prospective financial statements.

Principles of aggregation and disaggregation (paragraphs 28E–28H)

BC11 NZ IFRS 18 provides principles and guidance on:

(a) the roles of the primary financial statements[1] and the notes – for the purposes of determining whether to present material information in the primary financial statements or disclose it in the notes; and

(b) the aggregation and disaggregation of information, to ensure an appropriate level of detail is provided in general purpose financial statements.

BC12 To ensure the objective in paragraph 26 is met – specifically relating to a user's ability to assess actual financial results prepared in future reporting periods against the prospective financial statements – the NZASB decided to incorporate the abovementioned principles and guidance into FRS-42 for the purposes of presenting and disclosing material prospective information.

BC13 As a consequence of the decision noted in paragraph BC12, the requirement in paragraph 31 to present specific line items within the prospective statement of profit or loss has been removed, as the NZASB considered that the new principles will ensure material line items will be presented, with the appropriate level of aggregation and disaggregation, to fulfil the objective of the prospective financial statements. However, to provide entities with guidance around the types of line items that may be appropriate to present, the NZASB decided to require entities to consider specified line items listed in NZ IFRS 18, subject to the aggregation and disaggregation principles in paragraphs 28E–28G (see paragraph 28H).

Management-defined performance measures (paragraph 64A)

BC14 The NZASB considered whether, and to what extent, the disclosure requirements relating to management-defined performance measures in NZ IFRS 18 should be incorporated into FRS-42. The NZASB decided that when an entity intends to disclose information about one or more management-defined performance measures as part of its actual financial results that will subsequently be prepared for the period covered by the prospective financial statements, the entity should also disclose the same type of information about these measures in the prospective financial statements. Doing so will enable the entity to meet the objective in paragraph 26 of enabling users to assess actual financial results prepared in future reporting periods against the prospective financial statements. However, the NZASB decided to limit the extent of required disclosure as follows:

(a) an entity need not disclose the income tax effect (nor how this effect was determined) and the effect on non-controlling interests for each item disclosed in the reconciliation required in paragraph 64A(c). The NZASB did not consider this level of detail necessary in order to meet the objective in paragraph 26.

(b) the disclosure requirements relating to a change, addition or cessation (and its effects) would not relevant in the context of prospective financial statements, as an entity is only required to disclose information on those management-defined performance measures for which it expects to provide information in the actual financial results subsequently prepared for the period covered by the prospective financial statements.

BC15 The NZASB decided to remove paragraph 40, which required an entity to explain the relationship between prospective financial information presented in addition to the information reported in the prospective financial statements. The example provided in paragraph 40 related to the presentation of a prospective amount for earnings before interest, tax, depreciation and revaluation movements. Where such a subtotal is a management-defined performance measure which the entity intends to communicate in the actual financial results subsequently prepared for the period covered by the prospective financial statements, paragraph 64A already requires certain disclosures, rendering paragraph 40 redundant.

BC16 The NZASB considered whether paragraph 40 should be retained to require additional explanations for prospective financial information which may not be a management-defined performance measure under NZ IFRS 18. However, the NZASB decided against this, as this would result in broader disclosures in the prospective financial statements which would not be required in the historical financial statements when prepared in line with NZ IFRS 18, which would go against the objective of allowing the users to assess actual financial results prepared in future reporting periods against the prospective financial statements

Footnote 1 is amended. New text is underlined.

[1] NZ IFRS 18 defines 'primary financial statements' as the statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows. The NZASB decided not to introduce this term into FRS-42, to reduce complexity.

AMENDMENTS TO FOR-PROFIT DOMESTIC ACCOUNTING STANDARDS DUE TO NZ IFRS 18

* In February 2011 the NZ *Framework for the Preparation and Presentation of Financial Statements* was replaced with the equivalent to the IASB *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The qualitative characteristic of reliability in the old *Framework* is the same as the qualitative characteristic of faithful representation in the *Conceptual Framework*. In May 2018, the NZASB issued *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)*, which became effective on 1 January 2020. The qualitative characteristic of faithful representation in the *2018 NZ Conceptual Framework* is the same as described in the *Conceptual Framework.*

The footnote in paragraph BC23 in the FRSB Basis for Conclusions is amended. New text is underlined.

* In February 2011 the NZ *Framework for the Preparation and Presentation of Financial Statements* was replaced with the equivalent to the IASB *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The qualitative characteristic of reliability in the old *Framework* is the same as the qualitative characteristic of faithful representation in the *Conceptual Framework*. In May 2018, the NZASB issued *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)*, which became effective on 1 January 2020. The qualitative characteristic of faithful representation in the *2018 NZ Conceptual Framework* is the same as described in the *Conceptual Framework.*

A footnote is added to 'NZ IAS 1 *Presentation in Financial Statements*' in paragraphs BC41, BC42 and BC51 in the FRSB Basis for Conclusions. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* which replaced NZ IAS 1 when it became mandatory on 1 January 2027. Amendments to FRS-42 due to NZ IFRS 18 are discussed in paragraphs BC9–BC16 in the NZASB's Basis for Conclusions on FRS-42.

Part E – Amendments to FRS-43 *Summary Financial Statements*

Paragraphs 1, 2, 10, 11A–11C, 15, 19, 24, 27, 29, 35–37, 37B, 37C, 37H, 38 and 42 are amended. Paragraphs 2A, 10A–10D, 22A, 22B, 24A–24D, 25B–25E, 32A–32D, 37CA, 37CB and 43H are added. Paragraphs 22, 23, 23A, 25 and 25A are deleted. New text is underlined and deleted text is struck through.

Objective

1 The objective of this Standard is to specify the accounting practice and minimum presentation and disclosure requirements for summary financial statements of entities which are currently reporting in accordance with NZ IFRS. Summary financial statements cover an annual reporting period or periods, are prepared for the users of general purpose financial statements, and present and disclose information at a reduced level from that contained in the full financial statements.

2 Summary financial statements are intended to meet the information needs of users who do not require all the information contained in full financial statements. Summary financial statements may be required by legislation or they may be voluntarily prepared by an entity. Summary financial statements generally contain less detail ~~on the face of the statements and fewer notes~~ than the full financial statements.

2A The minimum presentation and disclosures required by this Standard are intended to provide sufficient information to allow users to identify if and when they consider it would be useful to obtain more comprehensive and detailed information from the full financial statements.

Components of summary financial statements

...

10 Summary financial statements shall include a summary of the:

(a) statement of financial position as at the end of the period;

(b) statement (or statements) of financial performance ~~of profit or loss and other comprehensive income~~ for the period;

(c) statement of changes in equity for the period; and

(d) statement of cash flows for the period.

10A An entity shall provide notes to the summary financial statements, which shall include the information required under paragraphs 32A–37, paragraphs 37CA-37H and paragraphs 38– 42.

10B An entity shall present its summary statement(s) of financial performance in line with how the statement is presented in the full financial statements – as either:

(a) a single summary statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections; or

(b) a summary statement of profit or loss and a separate summary statement presenting comprehensive income that shall begin with profit or loss.

10C In this Standard:

(a) the profit or loss section described in paragraph 10B(a) and the summary statement of profit or loss described in paragraph 10B(b) are referred to as the summary statement of profit or loss; and

(b) the other comprehensive income section described in paragraph 10B(a) and the summary statement presenting comprehensive income described in paragraph 10B(b) are referred to as the summary statement presenting comprehensive income.

10D An entity shall use the same titles for the statements listed in paragraph 10 as are used in the full financial statements. In addition, an entity shall use the same terms to label the totals, subtotals and line items presented in the summary financial statements as are used in the full financial statements.

...

Overall considerations

~~Application of materiality~~

11A **An entity shall present and disclose material~~sufficient~~ information in its summary financial statements to enable a user~~reader~~ to obtain a broad understanding of the entity's financial position, ~~and~~ performance and cash flows ~~of the entity in a manner that is neither misleading nor biased~~.**

11B An entity need only present or disclose information in the summary financial statements if it is material in the context of the summary financial statements, taken as a whole – that is, if the nature or magnitude (or both) of the information makes it likely that a user's broad understanding of the entity would be misled if such information were omitted from, or misstated or obscured in, those financial statements. ~~The disclosures required by this Standard are subject to the definition of materiality in NZ IFRS 18 *Presentation and Disclosure in Financial Statements*. They shall be disclosed separately if they are of such incidence and size, or of such nature, that their disclosure is necessary to explain the performance or financial position of the entity. A summary description of each material item, as included in the most recent full financial statements, shall be given to enable its nature to be understood. A summary description of items relating to other periods covered by the summary shall be given where this is required for an understanding of the summary financial statements, taken as a whole.~~

11C This Standard specifies minimum requirements~~disclosures~~ with~~in~~ respect to~~of~~ the presentation and disclosure of information in the summary financial statements. When additional disclosures are made which are consistent with an appropriate NZ IFRS~~financial reporting standard~~, there is no need to provide all the disclosures required by that NZ IFRS~~financial reporting standard~~.

...

Consistency with full financial statements

...

15 The information in the summary financial statements shall be prepared in accordance with all measurement and recognition requirements under GAAP. Although summary financial statements need comply only with the presentation and disclosure~~s~~ requirements set out under this Standard, the information presented and disclosed~~in them~~ shall still meet all measurement and recognition requirements that apply to full financial statements.

...

Single period summaries

Presentation of specific items~~Specific disclosures~~

...

19 An entity shall clearly identify each summary financial statement and the notes. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

…

(e) the level of rounding used for the~~in presenting~~ amounts in the summary financial statements.

...

~~22~~ ~~If the statement of financial position in an entity's full financial statements presents assets and liabilities using the current/non-current distinction rather than the alternative presentation outlined in paragraph 23, the summary statement of financial position shall disclose, as a minimum:~~

~~(a)~~ ~~current assets;~~

~~(b)~~ ~~non-current assets;~~

~~(c)~~ ~~current liabilities;~~

~~(d)~~ ~~non-current liabilities; and~~

~~(e)~~ ~~equity including separate disclosure of non-controlling interests.~~[Deleted]

~~23~~ ~~If the statement of financial position in an entity's most recent full financial statements presents assets and liabilities in order of liquidity the summary statement of financial position shall disclose, as a minimum:~~

~~(a)~~ ~~assets and liabilities broadly in order of liquidity; and~~

~~(b)~~ ~~equity including separate disclosure of non-controlling interests.~~[Deleted]

22A An entity shall present its assets and liabilities in the summary statement of financial position in line with the method of presentation adopted in the entity's full financial statements – that is, using:

(a) a current/non-current classification;

(b) a presentation based on liquidity; or

(c) a mix of the methods in (a) and (b).

22B In addition to the information required by paragraph 22A, an entity shall present in the summary statement of financial position:

(a) issued capital and reserves attributable to owners of the parent; and

(b) non-controlling interests.

~~23A~~ **~~An entity shall present all items of income and expense recognised in a period:~~**

~~(a)~~ **~~in a single statement of comprehensive income; or~~**

~~(b)~~ **~~in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).~~**[Deleted]

24 Subject to paragraph 24A, an entity shall present in the summary statement of profit or loss, line items for~~The summary statement of comprehensive income shall, as a minimum, separately disclose~~:

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) income tax expense or income; and

(e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.~~;~~

~~(f)~~ ~~profit or loss;~~[Deleted]

~~(g)~~ ~~each component of other comprehensive income classified by nature (excluding amounts in (h));~~[Deleted]

~~(h)~~ ~~share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and~~[Deleted]

~~(i)~~ ~~total comprehensive income.~~[Deleted]

24A An entity shall not present separately one or more of the line items listed in paragraph 24 if such line items are not presented separately in the full financial statements.

24B An entity shall present in the summary statement of profit or loss, the totals and subtotals (as reported in the full financial statements) for:

(a) operating profit or loss;

(b) profit or loss before financing and income taxes; and

(c) profit or loss.

24C An entity shall present an allocation of profit and loss for the reporting period, attributable to:

(a) non-controlling interests; and

(b) owners of the parent.

24D In addition to the presentation of the totals and subtotals required by paragraph 24B, an entity shall present additional subtotals in the summary statement of profit or loss where such subtotals are presented in the statement of profit or loss in the full financial statements.

~~25~~ ~~The following items shall be disclosed in the summary statement of comprehensive income as allocations of profit or loss for the period:~~

~~(a)~~ ~~profit or loss for the period attributable to:~~

~~(i)~~ ~~non-controlling interest; and~~

~~(ii)~~ ~~owners of the parent;~~

~~(b)~~ ~~total comprehensive income for the period attributable to:~~

~~(i)~~ ~~non-controlling interest; and~~

~~(ii)~~ ~~owners of the parent.~~[Deleted]

~~25A~~ ~~An entity may present in a separate income statement (see paragraph 23A) the line items in paragraph 24(a)–(f), and the disclosures in paragraph 25(a).~~[Deleted]

25B Subject to paragraph 25C, an entity shall present a line item for the share of other comprehensive income of associates and joint ventures accounted for using the equity method, in each of the following categories:

(a) income and expenses that will be reclassified to profit or loss when specific conditions are met; and

(b) income and expenses that will not be reclassified to profit or loss.

25C An entity shall not present separately one or more of the line items listed in paragraph 25B if such line items are not presented separately in the full financial statements.

25D An entity shall present in the summary statement presenting comprehensive income, totals for:

(a) profit or loss;

(b) other comprehensive income; and

(c) comprehensive income, being the total of (a) and (b).

25E An entity shall present an allocation of comprehensive income for the reporting period, attributable to:

(a) non-controlling interests; and

(b) owners of the parent.

…

27 An entity shall present in the~~a~~ summary statement of changes in equity~~. The summary statement of changes in equity shall, as a minimum, separately disclose~~:

(a) total comprehensive income for the period showing separately the total amounts attributable to owners of the parent and to non-controlling interest;

(b) the amounts of transactions with owners acting in their capacity as owners, including showing separately contributions by and distributions to owners; and

(c) total equity and each component of equity.

…

29 An entity shall present in the~~The~~ summary statement of cash flows,~~statement~~ totals for the following categories~~shall include the following individual components~~:

(a) net cash flows from ~~or used~~ in operating activities;

(b) net cash flows from ~~or used in~~ investing activities; and

(c) net cash flows from ~~or used in~~ financing activities.

…

Disclosure of specific items

Entities with specified main business activities

32A If an entity:

(a) invests in assets as a main business activity, it shall disclose that fact.

(b) **Provides financing to customers as a main business activity, it shall disclose that fact.**

32B **If, in the full financial statements for the period covered by the summary financial statements, an entity identifies a different outcome from its previous assessment of whether it invests in assets or provides financing to customers as a main business activity, the entity shall disclose:**

(a) **the fact the outcome of the assessment has changed; and**

(b) **the date of the change.**

Management-defined performance measures

32C **An entity shall disclose, for each of the management-defined performance measures for which the entity has disclosed information in its full financial statements:**

(a) **the label for the management-defined performance measure; and**

(b) **the total amount of the management-defined performance measure.**

32D **If, in the full financial statements for the period covered by the summary financial statements, the entity discloses changes in how it calculates a management-defined performance measure, or discloses information about a new management-defined performance measure or the cessation in use of a previously disclosed management-defined performance measure, it shall disclose:**

(a) **an explanation that enables users to understand the change, addition or cessation and its effects; and**

(b) **the reasons for the change, addition or cessation.**

…

Additional information

35 **If necessary to meet the objective in paragraph 11A,~~Sufficient~~ additional information shall be disclosed ~~to ensure that all relevant matters are reported to the users of the summary financial statements. A summary description of each item, as included in the full financial statements, shall be given to enable its nature to be understood.~~**

36 Examples of ~~the~~ additional information ~~required to be~~ disclosed under paragraph 35 ~~may~~ include information with regard to contingent assets, contingent liabilities, related party transactions, commitments, discontinued operations~~activities~~ and if a material~~fundamental~~ uncertainty around the going concern basis exists. Any additional information given shall be disclosed in accordance with the NZ IFRS~~financial reporting standard~~, if applicable, relating to the item.

Comparative information

37 **Comparative information for the previous reporting period shall be shown for all items presented and disclosed in the summary financial statements, except when such information is not presented or disclosed in the full financial statements. An entity shall disclose sufficient narrative and descriptive comparative information to meet the objective in paragraph 11A~~enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased~~.**

Multi-period summaries

…

Presentation of specific items~~Specific disclosures~~

37B **An entity presenting summary financial statements for multiple reporting periods shall present~~disclose~~ the information required by paragraphs 18B~~19~~ to 29.**

Prospective financial statements

37C **An entity presenting summary financial statements for multiple reporting periods shall present~~disclose~~ the information required by paragraphs 30 to 32 in relation to the most recent period in the summary.**

Disclosure of specific items

Entities with specified main business activities

37CA An entity presenting summary financial statements for multiple reporting periods shall disclose the information required by paragraph~~s~~ 32A and 32B in relation to each period in the summary.

Management-defined performance measures

37CB An entity presenting summary financial statements for multiple reporting periods shall disclose the information required by paragraph~~s~~ 32C and 32D in relation to each period in the summary.

…

Comparative information

37H An entity presenting summary financial statements for multiple reporting periods shall present and disclose the comparative information required by paragraph 37 except that comparative information is not required for the earliest period in the summary.

Other disclosures

Relationship to full financial statements

38 The summary financial statements shall prominently display the following information:

(a) a statement that the information~~specific disclosures~~ included in the summary financial statements has~~have~~ been extracted from the full financial statements. This statement shall identify which, if any, of these full financial statements contain information that has been restated or reclassified;

…

(e) that the summary financial statements do not include all the information~~disclosures~~ provided in the full financial statements and cannot be expected to provide as complete an understanding as provided by the full financial statements;

…

Accounting policies

…

42 If an entity's summary financial statements are in compliance with this Standard, that fact shall be disclosed. An entity shall not describe summary financial statements as complying with IFRS Accounting Standards~~IFRSs~~ or GAAP. Summary financial statements may be described as complying with GAAP as it relates to summary financial statements. In the context of summary financial statements in concise annual reports, compliance with GAAP means compliance with GAAP as it relates to summary financial statements.

Commencement and application~~Effective date~~

...

43G~~72J~~ NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 11B, 38 and 40. An entity shall apply those amendments when it applies NZ IFRS 18.

43H *Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18*, issued in [date], amended paragraphs 1, 2, 10, 11A–11C, 15, 19, 24, 27, 29, 35–37, 37B, 37C, 37H, 38 and 42, added paragraphs 2A, 10A–10D, 22A, 22B, 24A–24D, 25B–25E, 32A–32D, 37CA, 37CB and 43H and deleted paragraphs 22, 23, 23A, 25 and 25A. An entity shall apply those amendments when it applies NZ IFRS 18.

Appendix A
Defined terms

The definition for 'general purpose financial statements' is deleted. Deleted text is struck through.

~~**general purpose financial statements**~~	~~Statements provided to meet the information needs of external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.~~

Paragraphs BC1–BC7 (and related headings) are added. For ease of reading, these paragraphs have not been underlined.

NZASB Basis for Conclusions on FRS-43 *Summary Financial Statements*

This Basis for Conclusions accompanies, but is not part of, FRS-43.

Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18

BC1 The NZASB issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024. As a consequence, the NZASB reviewed and made amendments to the requirements of FRS-43 to ensure presentation and disclosure in summary financial statements is consistent with the presentation and disclosure requirements applicable to the full financial statements. Paragraphs BC2–BC7 set out the NZASB's decisions relating to certain key changes to FRS-43.

The objective of summary financial statements (paragraphs 11A)

BC2 Before *Amendments to For-profit Domestic Accounting Standards Due to NZ IFRS 18* was issued on [date], paragraph 11A stated that an entity shall disclose sufficient information in its summary financial statements to enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased.

BC3 When developing the aforementioned amending standard, the NZASB considered the role of the primary financial statements[2] in the full financial statements, which is to provide structured summaries of their recognised assets, liabilities, equity, income, expenses and cash flows that are useful to users for, among other things, obtaining an understandable overview of those items. The NZASB acknowledged that financial information prepared under FRS-43 would therefore be a summary of information that has already been summarised in accordance with the requirements of NZ IFRS 18. The NZASB decided that the objective in paragraph 11A – i.e., to provide users with a broad understanding of the financial position and performance – was appropriate, as a 'broad understanding' would result from a more high-level overview, compared to the structured summaries presented in the full financial statements.

BC4 The NZASB noted that paragraph 11A also referred to 'sufficient information'. NZ IFRS 18 states that only material information needs to be presented or disclosed in general purpose financial statements. Therefore, to ensure entities apply the concept of materiality in both the full financial statements and the summary financial statements, and to fulfil their different purposes, the NZASB decided to amend paragraph 11A to state explicitly that the entity shall present and disclose material information in its summary financial

[2] NZ IFRS 18 defines 'primary financial statements' as the statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows. The NZASB decided not to introduce this term into FRS-43, to reduce complexity.

statements. The NZASB also amended paragraph 11B to clarify how an entity applies the concept of materiality in the context of the summary financial statements.

BC5 Other minor amendments to paragraph 11A have been made as a consequence of the decisions noted in paragraphs BC3 and BC4.

Management-defined performance measures (paragraph 32C and 32D)

BC6 The NZASB considered whether, and to what extent, the disclosure requirements relating to management-defined performance measures in NZ IFRS 18 should be incorporated into FRS-43. The NZASB decided that it would help users obtain a broad understanding of the entity's financial performance if the summary financial statements contained some information relating to these measures.

BC7 The NZASB decided that, for each of the management-defined performance measures for which the entity has disclosed information in its full financial statements, an entity shall disclose summarised information about these measures that meet the objective in paragraph 11A. As a result of this decision:

(a) an entity need only disclose the label and amount for each management-performance measure. Users can refer to the full financial statements for further information on how the measure is calculated and explanations of why the measure provides useful information about the entity's financial performance.

(b) an entity need not disclose the reconciliation required by paragraph 123(c) of NZ IFRS 18, as users can refer to the full financial statements for more information on the relationship between management-defined performance measures and the relevant NZ IFRS total or subtotal.

(c) An entity shall disclose information relating to a change, addition or cessation (and its effects) in order to alert users to information that is likely to impact on their broad understanding of the entity's financial performance.

A footnote is added to 'NZ IAS 1 *Presentation of Financial Statements'* in paragraph BC9 in the FRSB Basis for Conclusions. New text is underlined.

* <u>In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the disclosures relating to presentation currency and level of rounding in NZ IAS 1 to NZ IFRS 18.</u>

A footnote is added to 'NZ IAS 1 *Presentation of Financial Statements'* in paragraph BC11A in the FRSB Basis for Conclusions. New text is underlined.

* <u>In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the disclosures relating to comparative information in NZ IAS 1 to NZ IFRS 18.</u>

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors'* in paragraph BC11A in the FRSB Basis for Conclusions. New text is underlined.

* <u>When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.</u>

Part F – Amendments to FRS-44 *New Zealand Additional Disclosures*

Paragraph 10 is amended and paragraph 28 is added. New text is underlined and deleted text is struck through.

Disclosures

...

Reconciliation of net operating cash flow to operating profit or loss~~profit (loss)~~

*10 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to operating profit or loss~~profit (loss)~~.

...

Commencement and application

...

28 *Amendments to For-profit Domestic Accounting Standards as a Consequence of NZ IFRS 18*, issued in [date], amended paragraph 10. An entity shall apply that amendment when it applies NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

A footnote is added to the heading 'Reconciliation of net operating cash flow to profit(loss) (paragraph 10)' in the FRSB Basis for Conclusions. New text is underlined.

* The requirement mentioned in this section was amended by *Amendments to For-profit Domestic Accounting Standards as a Consequence of NZ IFRS 18*, issued in [date].

XRB Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Amendments to For-profit Domestic Accounting Standards due to NZ IFRS 18

Proposed amendments to FRS-42, FRS-43 and FRS-44

Consultation document

April 2025

Consultation closes 16 July 2025

Contents

Section 1

What is this consultation document about?

We are proposing amendments to the following for-profit domestic standards due to NZ IFRS 18 *Presentation and Disclosure in Financial Statements*:

- FRS-42 *Prospective Financial Statements*
- FRS-43 *Summary Financial Statements*
- FRS-44 *New Zealand Additional Disclosures*

These proposed amendments aim to ensure that the presentation requirements for prospective and summary financial statements are consistent, where appropriate, with the requirements for the presentation of historical financial statements under NZ IFRS 18.

We also propose an amendment to the requirement in FRS-44 to reconcile net operating cash flow to profit (loss) when an entity uses the direct method to present its statement of cash flows, to be consistent with changes in NZ IFRS 18 and NZ IAS 7 *Statement of Cash Flows*.

Overview of NZ IFRS 18 and the proposed amendments

NZ IFRS 18 applies to all Tier 1 and Tier 2 for-profit entities. NZ IFRS 18 aims to improve how information is communicated in the financial statements by introducing the following key new requirements.

New categories and subtotals required in the statement of profit or loss

Amendments proposed to FRS-42 and FRS-43

New disclosures about management-defined performance measures

Amendments proposed to FRS-42 and FRS-43

Enhanced requirements for grouping of information (including specific expense disclosures)

Amendments proposed to FRS-42

NZ IFRS 18 is mandatory from 1 January 2027. The proposed amendments would have the same mandatory date.

How do the proposed amendments affect Tier 2 entities?

We do not expect that Tier 2 entities will be preparing prospective or summary financial statements. However, if a Tier 2 entity does engage in these types of reporting, then all the requirements of FRS-42 and FRS-43 apply. This includes the proposed amendments in this consultation relating to those standards.

The proposed amendment to FRS-44 relates to a requirement for which Tier 2 entities already have a disclosure concession. We are not proposing to remove this disclosure concession, and therefore the proposed amendment would not impact on Tier 2 entities who elect to use this disclosure concession..

Section 2

How to provide feedback

Making a submission

We are seeking comments on the questions below. We will consider all comments received before finalising the amendments to FRS-42, FRS-43 and FRS-44.

Q1. Do you agree with the proposed amendments to FRS-42? If not, why not?

Q2. Do you agree with the proposed amendments to FRS-43? If not, why not?

Q3. Do you agree with the proposed amendment to FRS-44? If not, why not?

Q4. Do you have any concerns with the costs involved in adopting the proposed amendments?

Q5. Do you have any other feedback on the ED proposals?

You can provide feedback to us via:

- the consultation page on our website (where you can upload a PDF or complete an online form); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

Please include 'Amendments to for-profit domestic accounting standards' in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The consultation closes on **Wednesday 16 July 2025.**

Timeline

Apr 2025
Consultation paper issued for public consultation

16 Jul 2025
Submissions due to the XRB

Aug/Sep 2025
Amending standard issued

1 Jan 2027
Amendments become mandatory to apply

Publication of submissions, the Official Information Act and the Privacy Act

We intend on publishing all submissions on the XRB website, unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.

Section 3

Overview of the proposed amendments to FRS-42

The purpose of FRS-42

FRS-42 establishes principles and specifies minimum presentation and disclosure requirements for entities that are required by legislation or regulation to present general purpose prospective financial statements in accordance with generally accepted accounting practice.

FRS-42 requires an entity presenting general purpose prospective financial statements to present a complete set of prospective financial statements using the best information that could reasonably be expected to be available, and which meet certain qualitative characteristics.

Approach to amending FRS-42 for the impact of NZ IFRS 18

We considered the objective of prospective financial statements, which is to:

enable users of those statements to evaluate the entity's financial prospects and *to assess actual financial results prepared in future reporting periods against the prospective financial statements.*

Considering this objective, we are proposing the following key amendments to FRS-42, to ensure that entities present and disclose prospective information in a manner consistent with actual financial results that will be subsequently prepared under NZ IFRS 18 (for the prospective period).

- Include the NZ IFRS 18 principles of aggregation and disaggregation
- Require categorisation of income and expenses consistent with NZ IFRS 18
- Remove minimum required line items in the statement of profit or loss
- Require the presentation of totals and subtotals required under NZ IFRS 18
- Require disclosure of certain operating expenses by nature, consistent with NZ IFRS 18
- Require disclosure of certain information relating to management-defined performance measures

We are also proposing to clarify that an entity must present and disclose *material* information in prospective financial statements, to ensure that both prospective and historical financial statements are presented in accordance with a similar overarching consideration of this key principle.

Do you agree with the proposed amendments?

Section 4

Overview of the proposed amendments to FRS-43

The purpose of FRS-43

FRS-43 specifies the accounting practice and minimum presentation and disclosure requirements for summary financial statements of entities which are currently reporting in accordance with NZ IFRS. Summary financial statements are intended to meet the information needs of users who do not require all the information contained in full financial statements.

Summary financial statements may be required by legislation, or they may be voluntarily prepared by an entity.

Approach to amending FRS-43 for the impact of NZ IFRS 18

We considered the objective of summary financial statements, which is to:

enable a user to obtain *a broad understanding* of the entity's financial position and performance.

Considering this objective, we are proposing the following key amendments to FRS-43, to ensure that:

- entities can derive summarised information from their full financial statements prepared under NZ IFRS 18; and
- users can obtain a broad understanding of the entity's financial position, performance and cash flows through this summarised information.

Require the presentation of totals and subtotals consistent with those presented in the full financial statements	Retain some minimum line items, but prohibit entities from presenting any of these line items if the full financial statements do not separately present these line items	Require disclosure of certain information relating to management-defined performance measures

We are also proposing to clarify:

- that an entity must present and disclose *material* information in summary financial statements, to ensure that both summary and full financial statements are presented in accordance with a similar overarching consideration of this key principle.
- how an entity applies the concept of materiality in the context of the summary financial statements.

Do you agree with the proposed amendments?

?

Section 5

Overview of the proposed amendments to FRS-44

What is the purpose of FRS-44?

FRS-44 aims to meet the information needs of users who require New Zealand-specific information not contained in IFRS Accounting Standards as adopted in New Zealand.

Proposed amendment to FRS-44

We identified one disclosure requirement within FRS-44 that is impacted by NZ IFRS 18 – paragraph 10 states that:

10. When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to profit or loss.

We noted that:

- NZ IFRS 18 requires entities to present an *operating profit or loss* subtotal.
- Paragraph 18 of NZ IAS 7 *Statement of Cash Flows* (as amended by NZ IFRS 18) requires operating profit or loss to be adjusted for certain items when the indirect method is used to report cash flows from operating activities.

To maintain consistency with these other NZ IFRSs, we are proposing to amend paragraph 10 of FRS-44 to ensure consistency with the updated requirements in NZ IAS 7:

10. When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to operating profit or loss.

Do you agree with the proposed amendment?

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date: 27 March 2025

To: NZASB Members

From: Jamie Cattell

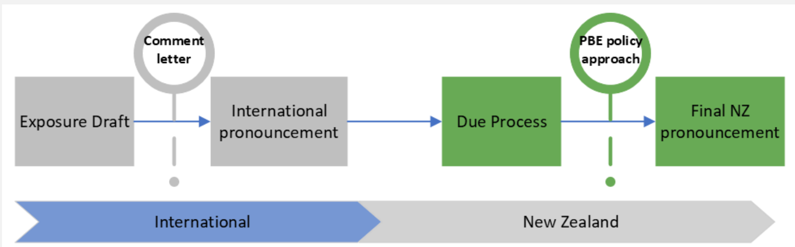
Subject: **Cover memo – IASB Power Purchase Agreements**

COVER SHEET

Project priority and complexity

Project purpose	*IASB Purpose:* The purpose of this project is to research possible narrow scope amendments to IFRS 9 to better reflect how financial statements are affected by Power Purchase Agreements (PPAs) with a focus on • Applying the own use exception in IFRS 9 to physical PPAs • Applying the hedge accounting requirements in IFRS 9 using a virtual PPA as the hedging instrument. *XRB Purpose:* To determine whether the proposed changes at the international level are appropriate for New Zealand.
Cost/benefit considerations	In consulting on the IASB ED, we sought NZ stakeholders' views on whether the amendments would incur additional costs/ benefits. We also considered costs and benefits when assessing whether to provide disclosure concessions for Tier 2 for-profit entities.
Project priority	**Medium** PPAs are becoming more commonplace in New Zealand and internationally. As the accounting treatments can be complex and differ between contracts, any changes in the accounting requirements could have widespread impacts.

Overview of agenda item

Project Status	
Board action required	**Low Complexity** • **APPROVE** the amending standard *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*. • **APPROVE** the signing memorandum from the NZASB Chair to the XRB Chair. • **AGREE NOT** to propose RDR concessions for Tier 2 for-profit entities.

Recommendations[1]

1. We recommend that the Board:

   (a) **APPROVE** for issue *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, which amends NZ IFRS 9 Financial Instruments and NZ IFRS 7 Financial Instruments: Disclosures;

   (b) **APPROVE** the signing memorandum and approval certificate, from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue Contracts Referencing Nature-dependent Electricity; and

   (c) **AGREE NOT** to propose RDR concessions for Tier 2 for-profit entities with respect to the disclosures introduced by this amending standard.

Background

2. In December 2024, the IASB issued *Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7*, which amends IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.

3. The amendments arose from a request submitted to the IFRS Interpretations Committee (IFRIC) asking how an entity would apply paragraph 2.4 of IFRS 9 (the 'own-use' exception) to contracts to buy and take delivery of electricity generated from nature-dependent sources.

4. Due to the widespread nature of the issue and its material effect on affected entities, the IFRIC referred the matter to the IASB to be addressed through standard setting activities.

5. The IASB issued the Exposure Draft (ED/2024/3) titled *Contracts for Renewable Electricity* in May 2024 for public comment. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 18 July 2024 and to the IASB on 7 August 2024. No comments were received from NZ Stakeholders.

6. The IASB received 91 comment letters in response to the ED, including a submission from the XRB. The XRB submission on 5 August 2024 broadly supported the proposals while raising concerns about some disclosure requirements. In particular, the XRB raised concerns about:

   (a) Commercial sensitivity of some disclosures in smaller markets like New Zealand

   (b) Potential misinterpretation of disclosures related to the proportion of renewable electricity

   (c) The need for clear scope provisions in IFRS 7 for own-use contracts subject to these disclosure requirements

7. The IASB addressed some of these concerns in the final amendments, including renaming the amendments to "*Contracts Referencing Nature-dependent Electricity*" to better reflect the scope and refining some of the disclosure requirements.

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[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

Structure of this memo

8. The remaining sections in this memo are:

   (a) Reasons for the amendments

   (b) Key requirements and changes from the exposure draft

   (c) Consideration of RDR Concessions

   (d) Consistency with Australian Accounting Standards

   (e) Due Process

   (f) Mandatory date and transition provisions; and

   (g) Questions for the Board;

Reasons for the amendments

9. These amendments address two key issues related to contracts referencing nature-dependent electricity:

   (a) *Own-use exception application*: Under the current requirements in IFRS 9, entities may find it difficult to apply the 'own-use' exception to contracts for buying nature-dependent electricity (such as wind or solar power) because the variable nature of the electricity supply can result in mismatches between delivery and usage, necessitating the sale of unused electricity. This may lead to such contracts being treated as derivatives and measured at fair value through profit or loss, which some stakeholders argue does not faithfully represent the economic purpose of these contracts.

   (b) *Hedge accounting challenges*: Entities face difficulties applying hedge accounting to contracts referencing nature-dependent electricity because of the variable volume of these contracts. Current hedge accounting requirements generally require the hedged item to be a fixed nominal amount, which is challenging when the underlying electricity volume varies based on uncontrollable natural conditions.

10. The amendments aim to provide targeted relief for these specific issues while maintaining the overall principles of IFRS 9 and ensuring adequate disclosures of the resulting risks and exposures, particularly when hedge accounting is applied and gains/losses which otherwise be recognised in the statement of profit or loss are deferred.

Key requirements and changes from the exposure draft

Key requirements

11. The amendments introduce the following key requirements:

   (a) **Definition and Scope:** The amendments define "contracts referencing nature-dependent electricity" as contracts where electricity amounts vary due to generation sources dependent on uncontrollable natural conditions. This definition effectively limits the scope of the amendments to contracts involving electricity from sources like wind or solar, excluding other types of renewable energy that don't have this variability characteristic. The amendments explicitly prohibit applying these provisions by analogy to other contracts, further restricting their application.

(b) **Own-use Exception Application:** The amendments allow entities to apply the own-use exception to contracts to buy nature-dependent electricity even when they regularly sell unused electricity, provided specific conditions are met. Affected contracts are treated as executory contracts, rather than derivatives measured at fair value through profit or loss, better reflecting their economic purpose. Under these amendments, an entity can qualify for the own-use exception if:

(i) It is required to buy electricity when it's generated, which may not align with its usage needs;

(ii) It has no practical ability to avoid selling unused electricity due to market design; and

(iii) It has been, and expects to be, a "net purchaser" of electricity over the contract period.

(c) **Hedge Accounting Treatment:** The amendments permit entities to designate a variable nominal amount of forecast electricity transactions as a hedged item when using contracts referencing nature-dependent electricity as hedging instruments. This variable amount must align with the expected electricity deliveries referenced in the hedging instrument. The amendments include a presumption that forecast transactions are "highly probable" when cash flows of the hedging instrument depend on their occurrence. These changes simplify hedge accounting for these contracts by removing the need to:

(i) Designate fixed nominal amounts that don't reflect the variable nature of the underlying electricity; and

(ii) Provide detailed documentation of the "highly probable" nature of variable volume transactions.

(d) **Enhanced Disclosure Requirements:** The amendments require specific disclosures to ensure users understand the risks and financial impacts of affected contracts. Key disclosure requirements include:

(i) Details of contractual features that create exposure to variability and oversupply risk;

(ii) Information about unrecognised commitments and potential onerous contract risks; and

(iii) Quantitative information about financial performance effects, including costs of purchases, proceeds from sales of unused electricity, and offsetting purchases.

Significant Changes from the Exposure Draft

12. Several significant changes were made from the ED to the final amendments. These changes are explained in the table below:

Change	Explanation	Alignment with XRB's comments
Terminology changes from "Contracts for Renewable Electricity" to "Contracts Referencing Nature-dependent Electricity"	Refined focus on nature dependency rather than renewable status to more accurately reflect the scope of the amendments and narrow application to contracts where output varies due to natural conditions.	Not specifically addressed in the XRB's comment letter.
Simplified net purchaser assessment for own-use qualification	The ED had more complex criteria for when sales are in accordance with expected usage. The final amendments simplify this to focus on whether the entity is a "net purchaser" overall, making application more straightforward.	Not specifically addressed in the XRB comment letter but aligns with the XRB's support for practical solutions.
Addition of a presumption that forecast transactions are "highly probable"	New provision allowing entities to presume that forecast transactions are highly probable when cash flows of the hedging instrument are conditional on their occurrence. This addresses concerns about documenting probability for variable volumes.	Aligns with XRB concerns about the complexity of meeting the "highly probable" criterion, especially for long-term contracts.
Modification of disclosure requirements	Changed from requiring disclosure of either fair value or expected volumes to focusing on estimated future cash flows and qualitative information about onerous contract assessment.	Directly responds to XRB's concerns about commercial sensitivity of disclosures in smaller markets like New Zealand.
Removal of proportional disclosures	Removed requirements to disclose proportion of renewable electricity to total electricity, focusing instead on financial impacts related to the net purchaser assessment.	Directly addresses XRB's concern about potential misinterpretation of disclosures related to the proportion of renewable electricity, which could be mistaken for sustainability metrics.
Explicit scope provisions for IFRS 7	Added specific paragraphs (5B-5D) to clarify which contracts are subject to which disclosure requirements in IFRS 7.	Directly addresses XRB's concern about the need for clear scope provisions in IFRS 7 for own-use contracts subject to these disclosure requirements.

Consideration of RDR Concessions

13. We have considered whether RDR concessions for tier 2 for-profit entities should be provided for the disclosure requirements introduced by these amendments. After applying the RDR Policy, we recommend that no RDR concessions should be proposed for these disclosures.

14. In accordance with the RDR Policy, we have followed the decision-making framework which includes applying a rebuttable presumption that disclosure requirements should be granted an RDR concession and then considering whether this presumption is rebutted for the specific disclosures in question.

15. We have identified that the new disclosure requirements from this amending standard relate to several key disclosure areas in the RDR Policy:

    (a) *Commitments and Contingencies:* The disclosures about unrecognised commitments arising from these contracts (paragraph 30A(b)(i)) and the estimated future cash flows are directly related to a key disclosure area identified in the policy.

    (b) *Risks Specific to Transactions/Events:* The disclosures about contractual features that expose the entity to variability and oversupply risk (paragraph 30A(a)) provide information about the unique risks associated with these contracts.

    (c) *Significant Estimates and Judgments:* The disclosures about how entities assess whether contracts might become onerous (paragraph 30A(b)(ii)) relate to significant judgments specific to these transactions.

    (d) *Significant or Material Transactions:* The disclosures about financial performance effects (paragraph 30A(c)) provide information about transactions that are likely to be material to understanding the entity's operations.

16. We also considered additional factors:

    (a) *Applicability:* While the number of Tier 2 entities with these contracts may currently be limited, the increasing focus on renewable electricity means that these contracts are likely to become more prevalent among Tier 2 entities in the future.

    (b) *Cost-Benefit Analysis:* The information required for these disclosures should be readily available to entities that have entered these contracts, as they would need this information for their own risk management processes and for applying the new own-use criteria and general hedge accounting documentation requirements.

    (c) *Precedent:* We noted that there are no directly comparable disclosures with RDR concessions in existing standards. The unique nature and risks of these contracts warrant specific disclosures to help users understand their impact.

17. Furthermore, these amendments depart from the existing general principles in NZ IFRS 9 by introducing a narrow scope exception specifically for contracts referencing nature-dependent electricity. Due to this departure from the standard approach, we consider that the additional disclosures are necessary for all entities that take advantage of the narrow scope exception. Such enhanced disclosures ensure that users of financial statements are provided with information about the effects of these contracts on the amount, timing and uncertainty of

future cash flows, as well as on financial performance and can more appropriately evaluate the 'exceptional' nature of these arrangements.

18. We note that paragraph 30B of the amendments to NZ IFRS 7 notes an entity shall disaggregate information required to be disclosed around hedging instruments by paragraph 23A (for which a RDR concession has already been provided). As such, Tier 2 entities would not have to make this disclosure (nor disaggregate it further) if they choose to apply the existing RDR concession for paragraph 23A.

19. Our overall assessment is that the key principles in the RDR Policy are met for these disclosures as they provide information that meets the needs of users of Tier 2 financial statements, and the benefits exceed the costs for Tier 2 entities to provide them.

20. As a result, the rebuttable presumption is rebutted, and we recommend that **no RDR concessions** should be proposed for the disclosure requirements introduced by these amendments.

Consistency with Australian Accounting Standards

21. The Australian Accounting Standards Board (AASB) has approved an amending standard equivalent to *Contracts Referencing Nature Dependent Electricity – Amendments to IFRS 9 and IFRS 7* in February 2025.

22. The AASB is also expected to approve an equivalent amending standard on Tier 2 disclosure concessions soon (the proposed concessions are currently being consulted upon). Given Australia uses a different approach to disclosure concessions through AASB 1060, they have proposed concessions on certain disclosures on the grounds these may be excessive for some Australian Tier 2 entities, particularly those with limited resources.

23. Our recommendations for RDR concessions above are based on our RDR Policy.

Due Process

24. The NZASB has contributed to, and relied upon, the due process performed by the IASB for these amendments. The IASB approved the final standard in December 2024 following their comprehensive consultation process.

25. Given the lack of feedback from New Zealand stakeholders on the exposure draft and the fact that the IASB addressed key concerns raised in the XRB's submission, we do not consider any further consultation in New Zealand is needed.

26. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

27. In accordance with section 22(2) of the Financial Reporting Act 2013, we have considered whether the standard is likely to require the disclosure of personal information. In our view, the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Mandatory date and transition provisions

28. *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7* will be applicable to New Zealand for-profit entities for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted. This is consistent with the effective date established by the IASB.

29. For transition:

    (a) *Own-use provisions*: An entity applies the amendments retrospectively in accordance with NZ IAS 8, using the facts and circumstances at the date of initial application. This may be the beginning of a reporting period other than an annual reporting period. An entity need not restate prior periods but may do so if possible, without hindsight. If prior periods are not restated, any difference between previous carrying amounts and carrying amounts at initial application is recognised in opening retained earnings.

    (b) *Hedge accounting provisions*: An entity applies the amendments prospectively to new hedging relationships designated on or after the date of initial application. At that date, an entity is permitted to discontinue an existing hedging relationship with a contract referencing nature-dependent electricity and designate it in a new hedging relationship in accordance with the amendments.

    (c) *Disclosures*: For the reporting period in which the amendments are first applied, an entity need not disclose the quantitative information that would otherwise be required by paragraph 28(f) of NZ IAS 8.

Questions for the Board

Q1. Does the Board **APPROVE** for issue *Contracts Referencing Nature-dependent Electricity*, which amends NZ IFRS 9 and NZ IFRS 7?

Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue *Contracts Referencing Nature-dependent Electricity*?

Q3. Does the Board **AGREE NOT** to propose RDR concessions for Tier 2 for-profit entities?

Attachments

Agenda item 5.1b	Draft amending standard *Contracts Referencing Nature Dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*
Agenda item 5.1c	Draft signing memorandum

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Contracts Referencing Nature Dependent Electricity – *Amendments to NZ IFRS 9 and NZ IFRS 7*

Issued April 2025

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Contracts Referencing Nature Dependent Electricity – *Amendments to NZ IFRS 9 and NZ IFRS 7*

Issued April 2025

This Tier 1 and Tier 2 for-profit amending Standard is based on *Contracts Referencing Nature Dependent Electricity*, issued by the International Accounting Standards Board, which amended IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* to introduce requirements addressing contracts referencing nature-dependent electricity.

The amendments clarify the scope and application of hedge accounting and disclosure requirements for such contracts, ensuring entities accurately reflect the variability and risks associated with electricity contracts from nature dependent sources. They also address the 'own use' exception, allowing entities to assess contracts for electricity purchases based on their expected usage requirements, thereby determining whether they fall within the scope of financial instruments standards.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This amending Standard was issued on 24 April 2025 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 24 April 2025 and takes effect on 22 May 2025.

Commencement and application

The amending Standard has a mandatory date of 1 January 2026, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to:

- Paragraphs NZ7.1.15.1 – NZ1.15.3 of amendments to NZ IFRS 9 *Financial Instruments;* and
- Paragraphs NZ44PP.1 – NZ44PP.3 of amendments to NZ IFRS 7 *Financial Instruments: Disclosures.*

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CONTENTS

Part A

Introduction

This document sets out amendments to NZ IFRS 9 *Financial Instruments* and NZ IFRS 7 *Financial Instruments: Disclosures.* These amendments introduce requirements addressing contracts referencing nature-dependent electricity and are identical to *Contracts Referencing Nature-dependent Electricity—Amendments to IFRS 9 and IFRS 7*, issued by the International Accounting Standards Board (IASB).

The amendments include:

- clarifying the application of the 'own-use' requirements;
- permitting hedge accounting if these contracts are used as hedging instruments; and
- adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

Part B

Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C

Amendments to NZ IFRS 9 *Financial Instruments*

Paragraphs 2.3A–2.3B, 2.8, 6.10.1–6.10.2, 7.1.15, 7.2.51–7.2.53, B2.7–B2.8 and their subheadings are added. A subheading is also added before paragraph 2.4. Paragraph 2.6 is amended. New text is underlined. Paragraphs 2.4 and 2.5 are not amended but are included for ease of reference.

Chapter 2 Scope

...

<u>2.3A</u> **<u>Paragraphs 6.10.1–6.10.2 and B2.7–B2.8 apply only to contracts referencing nature-dependent electricity. Contracts referencing nature-dependent electricity are contracts that expose an entity to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions (for example, the weather). Contracts referencing nature-dependent electricity include both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity.</u>**

<u>2.3B</u> <u>An entity shall not apply paragraphs 6.10.1–6.10.2 and B2.7–B2.8 by analogy to other contracts, items or transactions.</u>

<u>Contracts to buy or sell non-financial items</u>

2.4 **This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 2.5.**

2.5 **A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard (see paragraph 2.4).**

2.6 There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

...

A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, is within the scope of this Standard. Other contracts (which include contracts as described in paragraph 2.3A) to which paragraph 2.4 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, whether they are within the scope of this Standard.

...

2.8 An entity shall also apply paragraphs B2.7–B2.8 to assess whether contracts referencing nature-dependent electricity (as described in paragraph 2.3A) are entered into and continue to be held for the purpose of the receipt of electricity in accordance with the entity's expected usage requirements.

...

Chapter 6 Hedge accounting

...

6.10 Contracts referencing nature-dependent electricity

6.10.1 Some contracts referencing nature-dependent electricity are designated as hedging instruments in hedges of forecast electricity transactions. In addition to the requirements in paragraph 6.3.7, for such a hedging relationship an entity is permitted to designate as the hedged item a variable nominal amount of forecast electricity transactions that is aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument. The other hedge accounting requirements of this chapter continue to apply to such a hedging relationship.

6.10.2 If the cash flows of the contract referencing nature-dependent electricity designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item in accordance with paragraph 6.10.1, this forecast transaction is presumed to be highly probable as required by paragraph 6.3.3.

Chapter 7 Commencement, application and transition

7.1 Commencement and application

...

Contracts Referencing Nature-dependent Electricity

7.1.15 The amending Standard *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, published in April 2025, added paragraphs 2.3A–2.3B, 2.8, 6.10.1–6.10.2, 7.2.51–7.2.53, and B2.7–B2.8 and amended paragraph 2.6. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ7.1.15.1–NZ7.1.15.3. An entity that applies those amendments to an 'early adoption accounting period' shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ7.1.15.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 24 April 2025 and takes effect on 22 May 2025

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ7.1.15.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

(b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ7.1.15.3 In paragraph NZ7.1.15.2:

early adopter means a reporting entity that applies this amending Standard for an **early adoption accounting period**

early adoption accounting period means an accounting period of the **early adopter**:

(a) that begins before the **mandatory date** but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) for which the **early adopter**:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2026.

7.2 Transition

...

Transition for *Contracts Referencing Nature-dependent Electricity*

7.2.51 An entity shall apply paragraphs 2.3A–2.3B, 2.8 and B2.7–B2.8 retrospectively in accordance with NZ IAS 8 using the facts and circumstances at the date of initial application (the date when an entity first applies the amendments). The date of initial application shall be the beginning of a reporting period, which might be a reporting period other than an annual reporting period. An entity need not restate prior periods to reflect the application of these amendments. The entity is permitted to restate prior periods only if it is possible to do so without the use of hindsight. If the entity does not restate prior periods, it shall recognise any difference between the previous carrying amount and the carrying amount at the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) at the beginning of that reporting period.

7.2.52 If a contract referencing nature-dependent electricity (as described in paragraph 2.3A) would be outside the scope of NZ IFRS 9 as a result of applying the requirements in paragraphs B2.7−B2.8, an entity is permitted, at the date of initial application, to irrevocably designate this contract as measured at fair value through profit or loss in accordance with paragraph 2.5.

7.2.53 An entity shall apply paragraphs 6.10.1–6.10.2 prospectively to new hedging relationships designated on or after the date of initial application. An entity is permitted, at the date of initial application, to discontinue a hedging relationship in which a contract referencing nature-dependent electricity (as described in paragraph 2.3A) has been designated as the hedging instrument, if the same hedging instrument is designated in a new hedging relationship in accordance with paragraphs 6.10.1–6.10.2.

Appendix B

Application guidance

This appendix is an integral part of the Standard.

Scope (Chapter 2)

...

Contracts to buy nature-dependent electricity

B2.7 Some contracts referencing nature-dependent electricity (as described in paragraph 2.3A) require an entity to buy and take delivery of the electricity when it is generated. These contractual features expose the entity to the risk that it would be required to buy electricity during a delivery interval in which the entity cannot use the electricity. The entity might also have no practical ability to avoid making sales of unused electricity because the design and operation of the electricity market in which the electricity is transacted under the contract require any amounts of unused electricity to be sold within a specified time. When an entity applies the requirements in paragraph 2.4, such sales are not necessarily inconsistent with the contract being held in accordance with the entity's expected usage requirements. An entity entered into and continues to hold such a contract in accordance with its expected electricity usage requirements if the entity has been, and expects to be, a net purchaser of electricity for the contract period. An entity is a net purchaser of electricity if it buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity.

B2.8 In determining whether an entity is a net purchaser of electricity, the entity shall consider reasonable and supportable information (that is available without undue cost or effort) about its past, current and expected future electricity transactions over a reasonable amount of time. The entity identifies 'a reasonable amount of time' by considering the variability in the amount of electricity expected to be generated due to the seasonal cycle of the natural conditions and the variability in the entity's demand for electricity due to its operating cycle. In determining whether the entity has been a net purchaser, 'a reasonable amount of time' shall not exceed 12 months.

Part D

Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 5B–5D, 30A–30C, 44OO–44PP and the subheading before paragraph 30A are added. Paragraph 5 is included for ease of reference. New text is underlined.

Scope

...

5 This NZ IFRS applies to contracts to buy or sell a non-financial item that are within the scope of NZ IFRS 9.

...

5B Paragraph 30A applies only to contracts to buy nature-dependent electricity that satisfy the requirements in paragraph 2.3A of NZ IFRS 9 and are outside the scope of that Standard in accordance with paragraphs B2.7–B2.8 of NZ IFRS 9.

5C Paragraph 30B applies only to contracts that satisfy the requirements in paragraph 2.3A of NZ IFRS 9 and have been designated in a cash flow hedging relationship in accordance with paragraph 6.10.1 of NZ IFRS 9.

5D Paragraph 30C applies only to contracts that satisfy the requirements in paragraph 2.3A of NZ IFRS 9 and have been entered into with regards to an entity's electricity purchases. These contracts comprise those:

(a) within the scope of NZ IFRS 9; and

(b) outside the scope of NZ IFRS 9 in accordance with paragraph 2.4 of that Standard, including those excluded in accordance with paragraphs B2.7–B2.8 of that Standard.

...

Significance of financial instruments for financial position and performance

...

Other disclosures

...

Contracts referencing nature-dependent electricity

30A An entity shall disclose in a single note in its financial statements information about contracts that meet the criteria set out in paragraph 5B. In particular, the entity shall disclose information that enables users of its financial statements to understand the effects these contracts have on the amount, timing and uncertainty of its future cash flows and on its financial performance. To meet these objectives, an entity shall disclose:

(a) information about contractual features that expose the entity to:

(i) variability in the underlying amount of electricity (see paragraph 2.3A of NZ IFRS 9); and

(ii) the risk that the entity would be required to buy electricity during a delivery interval in which the entity cannot use the electricity (see paragraph B2.7 of NZ IFRS 9).

(b) information about unrecognised commitments arising from such contracts as at the reporting date, including:

(i) the estimated future cash flows from buying electricity under these contracts. The entity shall apply its judgement when identifying the appropriate time bands within which to disclose the estimated future cash flows.

(ii) qualitative information about how the entity assesses whether a contract might become onerous (see NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), including the assumptions the entity uses in making this assessment.

(c) qualitative and quantitative information about effects on the entity's financial performance for the reporting period. The disclosure is based on the information that is applicable to the reporting period that the entity used to assess whether it has been a net purchaser of electricity (see paragraph B2.8 of NZ IFRS 9). An entity shall disclose information for the reporting period about:

(i) the costs arising from purchases of electricity made under the contracts, disclosing separately how much of the purchased electricity was unused at the time of delivery;

(ii) the proceeds arising from sales of unused electricity; and

(iii) the costs arising from purchases of electricity made to offset sales of unused electricity.

30B An entity shall disaggregate, for its contracts that meet the criteria set out in paragraph 5C, the information the entity discloses, by risk category, about the terms and conditions of hedging instruments in accordance with paragraph 23A.

30C If an entity discloses information about other contracts referencing nature-dependent electricity as described in paragraph 5D (including those contracts described in paragraph 30B) in other notes in its financial statements, the entity shall include cross-references to those notes in the single note required by paragraph 30A.

...

Commencement and application

...

Contracts Referencing Nature-dependent Electricity

44OO The amending standard *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, issued in April 2025, which also amended NZ IFRS 9, added paragraphs 5B–5D, 30A–30C and 44PP. An entity shall apply these paragraphs in accordance with the commencement and application date provisions in paragraphs NZ44PP.1-NZ44PP.3. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

44PP In the reporting period in which an entity first applies *Contracts Referencing Nature-dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7*, the entity need not disclose the quantitative information that would otherwise be required by paragraph 28(f) of NZ IAS 8.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ44PP.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 24 April 2025 and takes effect on 22 May 2025.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ44PP.2 The accounting periods in relation to which this amending Standard commences to apply are:

(c) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

(d) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ44PP.3 In paragraph NZ44PP.2:

early adopter means a reporting entity that applies this amending Standard for an **early adoption accounting period**

early adoption accounting period means an accounting period of the **early adopter**:

(c) that begins before the **mandatory date** but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(d) for which the **early adopter**:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2026.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	[DATE[
To:	Michele Embling, Chair External Reporting Board
From:	Carolyn Cordery, Chair NZASB
Subject:	***Amending Standard – Contracts Referencing Nature Dependent Electricity***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue the amending standard *Contracts Referencing Nature Dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7,* which amends NZ IFRS 9 *Financial Instruments* and NZ IFRS 7 *Financial Instruments: Disclosures.*

2. Nature dependent electricity contracts help companies to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions. Current IFRS accounting requirements may not adequately capture how these contracts affect a company's performance.

3. To allow companies to better reflect these contracts in the financial statements, the International Accounting Standards Board (IASB) has made targeted amendments, including:

   (a) clarifying the application of the 'own-use' requirements to nature-dependent electricity contracts;

   (b) permitting hedge accounting if these contracts are used as hedging instruments; and

   (c) adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

Due process

4. The IASB issued Exposure Draft ED/2024/3 *Contracts for Renewable Electricity* (ED/2024/3) in May 2024. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 18 July 2024 and to the IASB on 7 August 2024. No comments were received from NZ stakeholders.

5. The IASB received 91 comment letters in response to the ED, including a submission from the XRB. The XRB submission on 5 August 2024, broadly supported the proposals while raising concerns about:

   (a) Commercial sensitivity of some disclosures in smaller markets like New Zealand;

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

(b) Potential misinterpretation of disclosures related to the proportion of renewable electricity; and

(c) The need for clear scope provisions in IFRS 7 for own-use contracts subject to these disclosure requirements.

6. The IASB addressed many of these concerns in the final amendments by:

(a) Renaming the amendments to better reflect their scope (nature-dependent electricity rather than renewable electricity);

(b) Refining disclosure requirements to address commercial sensitivity concerns;

(c) Removing proportional disclosures that could be misinterpreted; and

(d) Adding explicit scope provisions in IFRS 7.

7. Following consideration of comments from constituents, the IASB concluded that the applicable due process steps had been completed. The IASB issued the amending standard *Contracts Referencing Nature Dependent Electricity* in December 2024. This amending standard is effective for annual periods beginning on or after 1 January 2026 with early application permitted.

8. The NZASB has approved *Contracts Referencing Nature Dependent Electricity* in April 2025. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

9. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

10. The issuance of this amending standard is consistent with all three elements of the XRB Financial Reporting Strategy – it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities, and is consistent with the Accounting Standards Framework.

Adoption of international standards

11. The amending standard is a standard in its own right and is identical to *Contracts Referencing Nature Dependent Electricity – Amendments to IFRS 9 and IFRS 7* issued by the IASB, except for the New Zealand specific introduction, a scope paragraph explaining that the standard applies to Tier 1 and Tier 2 for-profit entities, and New Zealand specific wording for the commencement and application of the amending standard. The issuance of this amending standard results in alignment with international reporting requirements.

Harmonisation with Australia

12. The Australian Accounting Standards Board (AASB) has approved an amending standard equivalent to *Contracts Referencing Nature Dependent Electricity – Amendments to IFRS 9 and IFRS 7* in February 2025. As such, the issuance of this amending standard results in alignment with Australian reporting and international reporting requirements.

13. The AASB is also expected to approve an equivalent amending standard on Tier 2 disclosure concessions soon (the proposed concessions are currently being consulted upon). Given Australia uses a different approach to disclosure concessions through AASB 1060, they have proposed concessions on certain disclosures on the grounds these may be excessive for some Australian Tier 2 entities, particularly those with limited resources.

Consistent with the Accounting Standards Framework

14. The proposals are consistent with the Accounting Standards Framework and seek to meet the key objectives of meeting user needs by introducing new principles around complex financial instruments which lead to high quality financial reporting that provides enhanced information to aid different user understanding of these contracts and how they impact on an entity.

15. The proposals also seek to balance the costs and benefits of reporting by entities by establishing appropriate accounting requirements based on the nature and size of the entity. The NZASB considered whether Reduced Disclosure Regime (RDR) concessions should be provided for Tier 2 for-profit entities with respect to the disclosures introduced by the amendments.

16. The NZASB has determined that no RDR concessions should be proposed. This decision was based on the assessment that it is unlikely many Tier 2 entities in New Zealand would enter these types of contracts. Where they do, the disclosures provide beneficial information to users to help explain the impacts of these contracts and where the accounting treatment is different to the general principles of NZ IFRS 9. The costs of these disclosures are not expected to be significant given the documentation which would be kept by entities entering these types of contracts.

Commencement and Application date

17. *Contracts Referencing Nature Dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7* will be applicable to New Zealand for--profit entities for annual reporting periods beginning on or after 1 January 2026. This is consistent with the effective date established by the IASB. The amendments can also be applied earlier by an entity voluntarily, if their current reporting period ends after the amending standard takes effect.

18. The standard includes specific transition provisions:

    (a) *Own-use provisions*: Applied retrospectively using facts and circumstances at the date of initial application. Prior periods need not be restated but may be possible if done without hindsight.

(b) *Hedge accounting provisions*: Applied prospectively to new hedging relationships designated on or after the date of initial application.

(c) *Disclosures*: For the first reporting period, entities need not disclose the quantitative information, otherwise required by paragraph 28(f) of NZ IAS 8.

19. These commencement and application provisions comply with section 28 of the Financial Reporting Act 2013, which requires that accounting periods to which a standard applies must not be periods that have ended before the standard takes effect.

Other matters

20. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

21. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board to approve the issue of *Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7*.

Attachments

Amending Standard – Contracts Referencing Nature Dependent Electricity – Amendments to NZ IFRS 9 and NZ IFRS 7

Certificate of determination

Approval Certificate

Carolyn Cordery
Chair NZASB

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

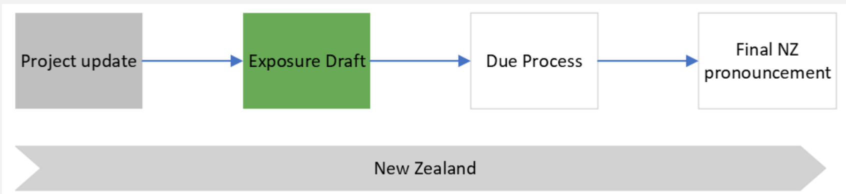
Date:	27 March 2025
To:	NZASB Members
From:	Alex Stainer
Subject:	**Amendments to XRB A1 *Application of the Accounting Standards Framework***

COVER SHEET

Project priority and complexity

Project purpose	To update XRB A1 *Application of the Accounting Standards Framework* to: • Amend the definition of public accountability for the latest IASB updates, and to address application challenges; • Increase the 'large' threshold for for-profit public-sector entities • Improve clarity of the Tier 4 criteria and 'moving between tiers' provisions for PBEs
Cost/benefit considerations	Amendments to the definition of public accountability and the 'moving between tiers' provisions for PBEs will make these easier to apply in practice, which will result in benefits and reduces compliance costs. Revisiting the tier size threshold for for-profit public sector entities also allows for a better balance of reporting costs and benefits for these impacted entities.
Project priority	**Low priority** These amendments are expected to better balance costs and benefits of reporting, and the issues being addressed are not pervasive or significant.

Overview of agenda item

Project Status	
Board action required	**Medium Complexity** • **PROVIDE FEEDBACK on the proposed amendments to XRB A1; and** • **RECOMMEND to the XRB Board the issue of the domestic ED and consultation document.**

Purpose and introduction[1]

1. We have commenced a project to make several improvements to XRB A1 *Application of the Accounting Standards Framework* to address some known and recently understood issues in the application of this Standard.

2. These improvements aim to address concerns raised with respect to the following:
   - The definition of Public Accountability
   - The Tier 1 size threshold ('large') for for-profit public sector entities
   - The Tier 4 criteria and 'moving between tiers' provisions for PBEs.

3. This memo sets out the background to the issues we are addressing, the recommended course of action, and the proposed amendments to XRB A1.

4. XRB A1 is a standard issued directly by the XRB Board (rather than a standard issued by the NZASB through their delegated authority). As such, we are seeking the Board recommend the proposed amendments to the XRB Board for their formal approval.

5. We have prepared a draft Exposure Draft (ED) containing the amendments to XRB A1, and a separate consultation document seeking feedback on the proposed amendments.

Recommendations

6. The Board is asked to:

   (a) **PROVIDE FEEDBACK** on the draft ED with proposed amendments to XRB A1 and the draft consultation document;

   (b) **RECOMMEND** to the XRB Board to issue the ED with proposed amendments to XRB A1; and

   (c) **RECOMMEND** to the XRB Board to issue the drafted consultation document.

Structure of this memo

7. The remaining sections in this memo are:

   (a) Brief introduction to XRB A1

   (b) Definition of public accountability

   (c) Tier 1 size threshold for for-profit public sector entities

   (d) Tier 4 criteria and 'moving between tiers' provisions

   (e) Other minor amendments

   (f) Draft consultation document and ED

   (g) Next steps

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

Brief introduction to XRB A1

8. XRB A1 is a financial reporting standard issued under section 12(a) of the Financial Reporting Act 2013 and establishes an accounting standards framework that New Zealand entities are required to, or opting into, to prepare general purpose financial reports (either GAAP or a non-GAAP standard).

9. XRB A1 outlines the criteria for different financial reporting tiers, classifying entities appropriately based on their size, nature and public accountability. It also specifies the accounting standards and authoritative notices applicable to each tier reporting across the for-profit and Public Benefit Entities (PBE) sectors.

10. As XRB A1 sets the Accounting Standards Framework in New Zealand, it is important that we respond to feedback from our stakeholders and conduct regular maintenance. As noted in the introduction, there are several matters needing attention, and these are addressed in the sections below.

Definition of public accountability

Background

11. The definition of 'public accountability' in XRB A1 is a key element in determining an entity's reporting tier. If a for-profit entity or a PBE has public accountability, that entity is required to apply Tier 1 reporting requirements – regardless of the entity's size.

12. The definition of public accountability in XRB A1 is also important from an audit and assurance perspective. An entity that must report in Tier 1 under XRB A1 is considered a "Public Interest Entity" (PIE) for audit and assurance purposes, which results in additional requirements around independence.[2]

13. The definition of public accountability in XRB A1 has two 'legs':

- The IASB definition of public accountability (paragraphs 7(a) and paragraph 8; and
- The New Zealand-specific 'deeming provision' (paragraphs 7(b) and paragraph 9).

14. We undertook a project in 2021/2022 to respond to feedback that the definition of public accountability in XRB A1 was unclear and challenging to apply in certain circumstances. These concerns mainly related to the second criterion of the IASB definition of public accountability, in paragraph 8(b) around holding assets in a fiduciary capacity.

15. We heard that for securities brokers/dealers and fund managers it can sometimes be unclear whether the entity is considered to "*hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses*".

16. We also heard from practitioners that paragraph 10 of XRB A1 adds unnecessary complexity to the application of the definition of public accountability. They also questioned the outcome of

[2] Professional and Ethical Standards 1 (PES 1) International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).

applying paragraph 10, as FMC reporting entities that hold assets in a fiduciary capacity for a broad group of outsiders may be able report under Tier 2 if they do not have a 'higher level of public accountability' under the FMC Act, while all non-FMC reporting entities that hold assets in a fiduciary capacity for a broad group of outsiders must report under Tier 1.

17. While these issues were not considered pervasive at the time, in May 2022, the Board agreed to recommend that the XRB Board approve for issue an ED proposing narrow-scope amendments to the definition of public accountability in XRB A1.

18. However, immediately following this decision, the IASB tentatively proposed amendments to its definition of public accountability which were expected to affect our proposed amendments. The XRB Board agreed to defer making amendments to XRB A1, and staff guidance was released in September 2022 to address these application challenges in the interim.

19. The IASB has completed the second comprehensive review of IFRS for SMEs and issued the third edition of IFRS for SMEs in February 2025, which includes the final amendments to the definition of public accountability. We now consider this is the right time to amend the public accountability definition in XRB A1.

Proposed amendments

Previous proposed amendments to XRB A1

20. To address these challenges, the May 2022 ED *Definition of public accountability – narrow-scope amendments to XRB A1* (the 2022 ED) proposed to introduce a new paragraph 8A clarifying that:

    (a) In New Zealand, many brokers do not hold assets in fiduciary capacity for a broad group of outsiders and instead mainly engage in transaction services on behalf of clients and provide investment advice; and

    (b) Judgement is required when determining whether an entity mentioned in paragraph 8(b) meets the 'fiduciary capacity' part of the IASB definition of public accountability.

21. To improve the understandability of paragraph 10 of XRB A1, the 2022 ED proposed to replace this paragraph with a new paragraph directly under paragraph 8(b) that better clarifies that an FMC reporting entity has public accountability under paragraph 8(b) if and only if it has a 'higher level of public accountability' under the FMC Act.

22. To clarify the link between the Tier 1 reporting criteria in XRB A1, and the definition of PIE for audit and assurance purposes, the 2022 ED proposed to introduce paragraphs 19A (for for-profit entities) and 38A (for public benefit entities) clarifying that an entity that is required to report in line with Tier 1 standards under XRB A1 is considered a PIE for audit and assurance purposes, and that auditors of PIEs have increased independence requirements.

23. Discussions on which entities should be PIEs, and what independence and assurance requirements should apply to them, continue to occur internationally between the International Auditing and Assurance Standards Board (IAASB) and the International Ethics

Standards Board for Accountants (IESBA). In New Zealand, additional independence requirements apply to auditors of PIEs, and the NZAuASB has received feedback from stakeholders that incremental audit procedures should not be included for all PIEs. The NZAuASB will continue to reassess the appropriateness of which entities should be PIEs, and the independence and assurance efforts needed for them, as international discussions evolve.

24. These amendments were documented in the May 2022 ED, but this ED was never exposed. We have considered whether it remains appropriate to incorporate these amendments into XRB A1 now as part of the 2025 proposed changes, given the IASB's changes.

IASB changes to definition of public accountability

25. The IASB have modified the definition of public accountability (shown below in red) and we have considered how the previous narrow scope amendments may fit with the updated IASB definition.

> **IFRS for SMEs**
>
> **Definition of public accountability**
>
> 1.3 An entity has public accountability if:
>
> (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
>
> (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (~~most~~ for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks ~~would~~ often meet this second criterion).
>
> 1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

26. The IASB have altered the definition by changing the word “most” to “for example”, and “would” to “often” when referring to banks, credit unions etc. holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This amendment softens the second part of this definition and acknowledges there could be circumstances where these entities would not be considered publicly accountable.

27. As a result, we consider this amendment achieves, in substance, the same outcome which the NZASB's previously proposed amendments were aiming to achieve. However, we consider the proposed amendments in the May 2022 ED are clearer for New Zealand entities and describe matters with appropriate practical context and would still be helpful to preparers compared to solely interpreting IASB's updated wording.

28. As such, we recommend proceeding with the amendments contained in the May 2022 ED with minor alterations for the updated IASB definition of public accountability. Refer to paragraph 8A in the draft ED in agenda item 6.1b for the proposed wording.

Questions for the Board

Q1. Does the Board have any **COMMENTS** on the proposed amendments to XRB A1 around the definition of public accountability?

Tier 1 size threshold for for-profit public sector entities

Background

29. XRB A1 sets out the Tier 1 criteria for 'for-profit' entities. It specifically provides that a 'for-profit public-sector entity' is required to apply the Tier 1 accounting requirements if it is 'large'.

30. Currently, a for-profit public-sector entity is considered 'large' if its total expenses exceed $30 million. This threshold was set at the same level as the PBE Tier 1 size threshold. As noted in paragraph BC18 of XRB A1 *"The Board has used the same threshold of $30 million expenses that is used to determine a large PBE in the PBE sector to ensure consistency across sectors and to prevent a public sector entity arbitraging across the two sectors."*

31. During 2023/24, we completed a project to increase the PBE tier size thresholds on the basis they had not been adjusted for many years and due to the effects of inflation the cost and benefits of reporting were no longer appropriately balanced.

32. This project resulted in the PBE Tier 1 size threshold increasing from $30 million to $33 million of total expenses and the PBE Tier 2 size threshold increasing from $2 million to $5 million of total expenses.

33. We have considered whether the Tier 1 size threshold relating to for-profit public-sector entities should also be increased to $33 million to match the PBE Tier 1 size threshold.

Analysis

34. To understand the impact of changing the threshold on this cohort, we have gathered information to understand the volume of entities that are 'for-profit public sector entities', which tier they currently apply, and their total expenses.

35. The Office of the Auditor General (OAG) provided an up-to-date list of for-profit public sector entities. From this data, we understand there are:

- 209 for-profit public sector entities;
- 115 (55%) of these are currently reporting in Tier 1; and
- 94 (45%) of these are currently reporting in Tier 2.

36. Based on our assessment of the Tier 1 reporters, there are 72 entities who are not publicly accountable[3], and therefore, would be reporting on the basis they exceed the size threshold of $30 million of total expenses. Of this group, we looked to gather information on their total expenses (where possible) to understand the impact of moving the threshold by certain amounts. Out of the 72, we were only able to collate total expenses for 56 entities[4].

37. The summary table below outlines the range of total expenses for this group.

Total expenses in latest reporting period	No. of Tier 1 for-profit public sector entities (without public accountability)
Under $30m	2
Between $30m and $33m	-
Above $33m	54
Total	**56**

38. As noted in the table, there are not many entities in this group close in proximity to the current size threshold ($30 million) and therefore there will be minimal changes if this was amended to $33 million.

39. We have not gathered information on those entities currently reporting in Tier 2 that may be close to the $30 million threshold, however we do not expect there to be any significant concerns to existing Tier 2 reporting entities from a proposed increase in the size threshold.

40. As such, we do not expect there to be any significant changes in volume of entities applying Tier 1 or Tier 2 standards if the Tier 1 size threshold increased to $33 million (in line with the increase in the Tier 1 PBE size threshold).

41. Accordingly, as the Board's intention with this threshold was to have consistency across sectors and to prevent a public sector entity arbitraging across the two sectors, we recommend the Tier 1 size threshold for for-profit public sector entities is increased to $33 million of total expenses in line with the PBE Tier 1 size threshold. Refer to paragraph 18 in the draft ED in agenda item 6.1b for the proposed wording.

Questions for the Board

Q2. Does the Board have any **COMMENTS** on the proposed amendments to XRB A1 around the Tier 1 size threshold for for-profit public sector entities?

[3] We excluded entities who are listed, or who provide insurance or banking services, or who are a registered scheme.
[4] 3 entities no longer classed themselves as for-profit, and 13 entities did not have publicly available financial statements, or we were unable find these in our search online.

Tier 4 criteria and 'moving between tiers' provisions

Background

42. XRB A1 currently contains the requirements around 'moving between tiers' for PBEs in paragraphs 47-72. These requirements apply when an entity that is reporting under one tier becomes eligible (via the particular tier criteria) to report under another tier. These requirements prescribe which reporting period the entity can transition to reporting in the other tier.

43. A summary of these requirements for movements between tier 4 and other tiers is provided in the table below.

PBE Tiers	Current reporting period where entity meets new tier criteria	Next reporting period	The reporting period after
Tier 4 to Tier 1 (Paragraphs 53 – 55) *If becomes publicly accountable then must immediately apply Tier 1. But if becomes large in current reporting period, must apply Tier 1 for the reporting period after the next reporting period*	**Tier 1 – if entity has public accountability** **Tier 4 – if no public accountability**	**Tier 1 – if entity has public accountability** **Tier 4 – if no public accountability**	**Tier 1 – if entity has public accountability** **Tier 1 – if no public accountability**
Tier 4 to Tier 2 (Paragraphs 61 – 62) *If meets the size criteria in current reporting period, then must apply Tier 2 for the reporting period after the next reporting period.*	**Tier 4**	**Tier 4**	**Tier 2**
Tier 4 to Tier 3 (Paragraphs 67 – 68) *If no longer meets the Tier 4 criteria and meets Tier 3 size criteria in current reporting period, must apply Tier 3 for the reporting period after the next reporting period.*	**Tier 4**	**Tier 4**	**Tier 3**
Tier 1, 2 or 3 to Tier 4 (Paragraphs 69 – 72) *If meets the Tier 4 criteria in current reporting period, then can apply Tier 4 immediately. But can only apply Tier 4 in next reporting period after ceases being publicly accountable*	**Tier 1 – If entity loses public accountability** **Tier 4 – If entity never had public accountability**	**Tier 4**	**Tier 4**

Interaction of XRB A1 with primary legislation

44. We often receive questions from stakeholders about when they need to move from one tier to another. However, when responding to questions about the boundary between Tier 3 and 4 from our stakeholders, we note the 'moving between tiers' provisions for *Tier 4 to Tier 3* and for *Tier 1, 2 or 3 to Tier 4* may be open to interpretation.

45. Questions arise when interpreting the Tier 4 criteria and 'moving between tiers' provisions alongside the requirements of primary legislation where the boundary between Tier 3 and 4 is legislatively defined, rather than defined within XRB A1. For example, the Charities Act 2005 and the Incorporated Societies Act 2022 both outline that a "specified not-for-profit entity" is required to prepare financial statements using GAAP. While in any other case (excluding small societies) either GAAP or a non-GAAP standard can be used.

46. As XRB A1 classifies Tier 4 as a non-GAAP standard, and Tiers 1, 2 and 3 as GAAP, the application of the Tier 4 standard depends upon whether an entity meets the definition of a "specified not-for-profit entity" due to these entities needing to comply with a XRB issued GAAP standard.

47. The definition of a "specified not-for-profit entity" is contained in section 46 of the Financial Reporting Act 2013 which notes *"For the purposes of an enactment that refers to this section an entity is a specified not-for-profit entity in respect of an accounting period if, in each of the <u>2 preceding accounting periods</u> of the entity, the total operating payments of the entity are $140,000 or more."*

48. The key element of this definition is that it refers to the 2 preceding accounting periods, rather than the current accounting period with respect to the size threshold (as noted in XRB A1) when considering whether an entity is a "specified not-for-profit entity".

49. XRB A1 outlines the Tier 4 criteria in paragraph 42 and states that an entity can apply PBE Tier 4 requirements provided the entity:

- does not have public accountability; and
- does not meet the legislative size threshold to be a "specified not-for-profit entity".

50. XRB A1 contains several references to Tier 4 criteria, Tier 4 size criteria or legislative size thresholds. These are intended to reflect the different components of the Tier 4 criteria (that is, Tier 4 criteria reflects both public accountability and "specified not-for-profit entity", while the Tier 4 size criteria or legislative size threshold reflect just the "specified not-for-profit entity" elements). These references can also be seen in the 'moving between tiers' provisions.

51. However, the different terminology that specifies a size criteria or size threshold rather than referencing the legislative definition of a "specified not-for-profit entity" create some clarity issues around what is intended.

52. We have heard from stakeholders who interpret this terminology to indicate that as soon as an entity has less than $140,000 of total operating payments, it can report using the Tier 4 Standard. However, this would not be consistent with the entity not being a "specified not-for-profit entity" as that definition relies on the <u>2 preceding accounting periods</u>, rather than the current period.

53. Paragraph BC42 of XRB A1 provides rationale that *"Where a PBE meets the relevant size criteria and is required to apply the relevant accounting standards of a higher tier, the Board*

decided that the entity should be permitted to continue to apply the relevant accounting standards of the lower tier for at least one more reporting period. This is to allow the PBE time to prepare to report under a higher tier. However, where an entity no longer meets the size criteria to apply the relevant accounting standards of a higher tier, it may apply the relevant accounting standards of the lower tier immediately to reduce its costs of reporting."

54. There is a risk that an entity that has current year operating payments of less than $140,000 may apply the Tier 4 standard immediately in line with XRB A1, but still meets the definition of a "specified not-for-profit entity" as the operating payments for the preceding 2 accounting period remained over $140,000.

55. In this situation, the entity would inadvertently breach primary legislation (such as the Charities Act 2005 or the Incorporated Societies Act 2022), where they would still be required to prepare financial statements using GAAP (and therefore unable to apply the non-GAAP Tier 4 standard).

First year application

56. We have also been made aware of several occurrences where an entity has incorrectly determined the relevant tier upon adoption of the Accounting Standards Framework. For instance, an entity upon becoming a registered charity, applied Tier 3 on the basis that its 2 preceding accounting periods had total expenses less than $2 million (prior to the increase in this threshold to $5 million), despite total expenses for the current year of adoption being greater than the size threshold to apply Tier 3.

57. We have considered whether additional clarification on determining relevant reporting tiers is required for entities that are applying the Accounting Standards Framework for the first time. However, we believe that challenges in this area are isolated and are not driven by the drafting of the requirements in XRB A1. We believe these types of challenges could be better addressed with staff guidance and education (if required).

Proposed amendments

58. We recommend amending the terminology used in the Tier 4 criteria, and the 'moving between tiers' provisions to clarify that an entity **must not** meet the definition of a "specified not-for-profit entity" before it can apply the Tier 4 Standard. Refer to paragraph 5, 42-42A and 70-71 in the draft ED in agenda item 6.1b for the proposed wording.

Questions for the Board

Q3. Does the Board have any **COMMENTS** on the proposed amendments to XRB A1 around the Tier 4 criteria and 'moving between tiers' provisions?

Other minor amendments

59. We also note that we have included some other unrelated minor edits to help with clarity of application. Refer to paragraph 17, 29 and 37 in the draft ED in agenda item 6.1b for the proposed wording.

Draft Consultation Document and ED

60. The amendments recommended in this memo have been reflected in the draft ED (Agenda Item 6.1b) and consultation document (Agenda Item 6.1c). The rationale for the amendments is explained in the consultation document and in the Basis for Conclusions of the ED.

61. We recommend the standard comment period of approximately 90 days for the ED. We currently plan for the ED to be published in mid-June 2025, after approval by the XRB Board in May 2025, and therefore, we propose to close the consultation period on Tuesday 30 September 2025.

62. As the finalised amendments are likely to be issued in Q4 of 2025, we recommend proposing that the amendments be mandatory for periods beginning on or after 1 January 2027.

Questions for the Board

Q4. Does the Board have any other **COMMENTS** on the proposed ED and consultation paper with respect to the proposed amendments to XRB A1, the consultation period timing and the proposed mandatory date?

Q5. Subject to final amendments being approved by the Chair, does the Board **AGREE TO RECOMMEND** the Exposure Draft *2025 Amendments to XRB A1* to the XRB Board for issue?

Q6. Subject to final amendments being approved by the Chair, does the Board **AGREE TO RECOMMEND** the Consultation Document to the XRB Board for issue?

Next steps

63. If the Board agrees with the recommendations in this memo, staff will seek the XRB Board's approval to issue the proposed amendments to XRB A1 for public consultation. We plan to do this at the XRB Board's meeting on **Monday 26 May 2025**. Due to the timing of XRB meetings, the earliest we can now issue the consultation is in June.

64. We also note that Explanatory Guidance A1 *Guide to Application of the Accounting Standards Framework* (EG A1), and *Staff guidance - Definition of public accountability in XRB A1* refers to the definition of public accountability and related guidance in XRB A1. EG A1 and the staff guidance will need to be updated in line with the proposed amendments to XRB A1, when these amendments are issued as final pronouncements.

Attachments

Agenda item 6.1b: Draft ED

Agenda item 6.1c: Draft Consultation Document

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Exposure Draft

2025 Amendments to XRB A1 *Application of the Accounting Standards Framework*

Submissions close on 30 September 2025

June 2025

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

XRB EXPOSURE DRAFT 2025-X

2025 Amendments to XRB A1 *Application of the Accounting Standards Framework*

Issued [date 2025]

This [draft] amending Standard introduces additional guidance and clarification in response to several application challenges relating to the definition of public accountability and the 'moving between tiers' provisions. The [draft] amending Standard also increases the Tier 1 size threshold for for-profit public-sector entities to align with the Tier 1 size threshold for Public Benefit Entities (PBEs) in order to enhance the consistency of the Accounting Standards Framework.

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This [draft] amending Standard was issued on [date 2025] by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The [draft] amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The [draft] amending Standard was published under the Legislation Act 2019 on [date 2025] and takes effect on [date 2025].

Commencement and application

The [draft] amending Standard has a mandatory date of [date] meaning it must be applied by reporting entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this [draft] amending Standard takes effect – refer to paragraphs 81 - 84 of this amending Standard.

2025 AMENDMENTS TO XRB APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK

ISBN [TBC]

2025 AMENDMENTS TO XRB APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK

CONTENTS

2025 AMENDMENTS TO XRB APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK

Part A – Introduction

This amending Standard introduces additional guidance and clarification in response to several application challenges relating to the definition of public accountability and the PBE 'moving between tiers' provisions. The amending Standard also increases the Tier 1 size threshold for for-profit public-sector entities to align with the Tier 1 size threshold for Public Benefit Entities (PBEs) to enhance the consistency of the Accounting Standards Framework.

Specifically, this [draft] Standard:

(a) updates the definition of public accountability to reflect the IASBs latest update following the second comprehensive review of IFRS for SMEs;

(b) clarifies in paragraph 8A(a) that FMC reporting entities do not have public accountability under paragraph 8(b) if they do not have 'higher level of public accountability' under the Financial Markets Conduct Act 2013;

(c) clarifies in paragraph 8A(b) that in New Zealand, many entities known as 'brokers' or 'dealers' do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Judgement is required in determining whether these types of entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses when determining whether they meet the public accountability criterion under paragraph 8(b);

(d) links the Tier 1 reporting requirements in XRB A1 to the definition of a public interest entity (PIE) for audit and assurance purposes – namely, an entity that is required to report in Tier 1 under XRB A1 will also be defined as a PIE for audit and assurance purposes;

(e) increases the Tier 1 size threshold for for-profit public sector entities to $33 million of total expenses to align with the Tier 1 size threshold for PBEs; and

(f) clarifies the requirements for the Tier 4 criteria and the connection between the 'moving between tiers' provisions – that is, a PBE must not meet the definition of a "specified not-for-profit entity" within primary legislation before it can apply the PBE Tier 4 Requirements, regardless of whether in the current period its total operating payments are less than $140,000.

Part B – Scope

An entity shall apply this Standard when it prepares, or when it opts under an enactment to prepare, General Purpose Financial Reports (GPFR) in accordance with accounting standards issued by the External Reporting Board.

Part C – Amendments to XRB A1 *Application of the Accounting Standards Framework*

Paragraph 5, 7, 8, and 8(b) are amended, paragraph 8A is added and paragraph 10 is deleted. Paragraphs 9, 11, 12 and 13 are not amended but are included for reference. New text is underlined and deleted text is struck through.

A. INTRODUCTION

…

Non-GAAP standard

5 Certain enactments permit an entity that does not meet the legislative definition of ~~size threshold to be~~ a "specified not-for-profit entity"[1] to prepare its financial statements in accordance with a "non-GAAP standard". A "non-GAAP standard" is a standard issued by the XRB or NZASB pursuant to section 12(a) of the Financial Reporting Act 2013 that is stated to be a non-GAAP standard. Only the Tier 4 PBE Accounting Requirements comprise non-GAAP standards.

…

Public accountability

7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:

(a) it meets the IASB definition of public accountability ~~as specified~~ in paragraph 8 (subject to paragraph ~~10~~8A); or

(b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.

8 ~~In accordance with the IASB definition,~~ The IASB defines an entity as having ~~has~~ public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, ~~most~~ banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often ~~would~~ meet this second criterion).

8A In New Zealand, the application of the paragraph 8(b) is subject to the following additional considerations.

(a) An FMC reporting entity is considered to have public accountability in accordance with paragraph 8(b) if, and only if, the FMC reporting entity is deemed to have public accountability in accordance with paragraph 9.

(b) Paragraph 8(b) provides that "banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks" often have public accountability. In New Zealand, this statement may not necessarily apply to every type of entity listed in the IASB definition. For example, in New Zealand, many entities known as 'brokers' or 'dealers' do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Judgement is required in determining whether a non-FMC reporting entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, when applying paragraph 8(b). Additional guidance is provided in paragraphs 11 and 12.

9 An entity is deemed to have public accountability in New Zealand if:

(a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013;[2] or

(b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

10 ~~Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a "higher level of public accountability" than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).~~ [Deleted]

11 Some entities may hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management

1 Section 46 of the Financial Reporting Act 2013 provides that an entity is a "specified not-for-profit entity" if, in each of the preceding two accounting periods, its total operating payments are $140,000 or more. Standard XRB A2 Meaning of Specified Statutory Size Thresholds sets out the meaning for the size threshold of a specified not-for-profit entity.

2 The terms "FMC reporting entity" and an FMC reporting entity with a "higher level of public accountability" are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a higher level of public accountability for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a higher level of public accountability or not to have a higher level of public accountability than other FMC reporting entities.

of the entity. However, if they do so for reasons incidental to a primary business, that does not mean that they have public accountability. For example:

(a) this may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies;

(b) in the public sector, a government department whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business; and

(c) in the not-for-profit sector, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a "fiduciary capacity for a broad group of outsiders" it is not holding them "as one of its primary businesses". This is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.

12 Trustees of a trust are required to act in a fiduciary capacity for the benefit of the beneficiaries of that trust or in achieving the objects of the trust. However, this does not necessarily mean that the trust has public accountability as defined in paragraph 8(b). For example, a trust would not have public accountability when the financial resources or other resources held and managed by the trust are not the resources of specified individual beneficiaries, in the manner that the financial resources of the entities listed in paragraph 8(b) are the resources of the individual clients, customers and members of those entities.

13 Where the entity is a group in New Zealand, and the parent/controlling entity of the group has public accountability, the group is deemed to have public accountability. A group is not considered to have public accountability solely by reason of a subsidiary/controlled entity having public accountability.

Paragraphs 17(a)(ii),18 and 29 are amended, and paragraph 19A is added. Paragraphs 19, 20, 21, 28 and 30 are not amended but are included for reference. New text is underlined and deleted text is struck through.

B. FOR-PROFIT ENTITIES

Tier structure

…

Tier 1 criteria

17 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it:

(a) (i) has public accountability at any time during the reporting period; or

(ii) is a large for-profit public sector entity <u>(as defined in paragraph 18)</u>; or

(b) is eligible to report in accordance with the accounting requirements of Tier 2 but does not elect to report in accordance with that tier.

18 For the purpose of applying the Tier 1 size criteria, a for-profit public sector entity is large if it has total expenses over ~~$30 million~~ <u>$33 million</u>. Total expenses means the total expenses (including income tax expense) recognised in its profit or loss by an entity in accordance with Tier 1 For-profit Accounting Requirements, where profit or loss is defined as the total of income less expenses, excluding the components of other comprehensive income. Where income and expenses are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the parent/controlling entity and all its subsidiaries/controlled entities.

19 A for-profit entity that opts under an enactment to prepare GPFR in accordance with Tier 1 For-profit Accounting Requirements shall apply Tier 1 For-profit Accounting Requirements for the reporting period in which it opts to apply the Tier 1 For-profit Accounting Requirements.

19A The Tier 1 criteria also determines whether a for-profit entity is treated as a public interest entity (PIE) for audit and assurance purposes. Specifically, an entity that meets the Tier 1 criteria in this Standard and is not eligible to report in accordance with the accounting requirements of another tier is treated as a PIE for audit and assurance purposes. Auditors of PIEs have additional independence requirements.

Tier 2 criteria

20 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity may elect to report in accordance with Tier 2 For-profit Accounting Requirements if it:

(a) does not have public accountability; and

(b) is not a large for-profit public sector entity (as defined in paragraph 18).

21 A for-profit entity that opts under an enactment to prepare GPFR in accordance with Tier 2 For-profit Accounting Requirements shall apply Tier 2 For-profit Accounting Requirements for the reporting period in which it opts to apply the Tier 2 For-profit Accounting Requirements.

…

Moving between tiers

…

Moving into Tier 2

Tier 1 to Tier 2

28 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently meets the Tier 2 criteria because it no longer has public accountability, it must continue to apply Tier 1 For-profit Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 2 For-profit Accounting Requirements for the reporting period after it ceases to have public accountability.

29 Where a for-profit public sector ~~an~~ entity that had applied Tier 1 For-profit Accounting Requirements subsequently meets the Tier 2 size criteria because it is no longer large (as defined in paragraph 18), it may elect to apply Tier 2 For-profit Accounting Requirements for the reporting period in which it meets the Tier 2 size criteria.

30 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently applies Tier 2 For-profit Accounting Requirements, the entity's recognition and measurement accounting policies are not changed as a result. Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements have identical recognition and measurement requirements. Therefore, moving between these two for-profit tiers does not trigger any changes in the entity's recognition and measurement accounting policies, other than as may be required by Tier 2 For-profit Accounting Requirements. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements of NZ IAS 8.

…

Paragraphs 37, 42, 42A, 70 and 71 are amended, and paragraph 38A is added. Paragraphs 38, 39, 40, 41, 67, 68, 69 and 72 are not amended but are included for reference. New text is underlined and deleted text is struck through.

C. PUBLIC BENEFIT ENTITIES

Tier structure

…

Tier 1 criteria

37 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE shall report in accordance with Tier 1 PBE Accounting Requirements if it:

(a) (i) has public accountability[3] at any time during the reporting period; or

(ii) is large (as defined in paragraph 38); or

(b) is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.

38 For the purpose of applying the Tier 1 size criteria, a PBE is large if it has total expenses over $33 million. Total expenses means the total expenses (including losses and grant expenses), recognised in its surplus or deficit by an entity in accordance with Tier 1 PBE Accounting Requirements, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expense are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

38A The Tier 1 criteria also determine whether a public benefit entity is treated as a public interest entity (PIE) for audit and assurance purposes. Specifically, an entity that meets the Tier 1 criteria in this Standard and is not eligible to report in accordance with the accounting requirements of another tier is treated as a PIE for audit and assurance purposes. Auditors of PIEs have additional independence requirements.

Tier 2 criteria

39 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 2 PBE Accounting Requirements if it:

(a) does not have public accountability; and

(b) is not large (as defined in paragraph 38).

Tier 3 criteria

40 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 3 PBE Accounting Requirements if it:

(a) does not have public accountability; and

(b) has total expenses less than or equal to $5 million.

41 For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

Tier 4 criteria

42 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 4 PBE Accounting Requirements if it is permitted by an Act to report in accordance with non-GAAP standards (i.e., the cash basis of accounting) because it does not have public accountability and does not meet the legislative definition of ~~size threshold to be~~ a "specified not-for-profit entity".[4]

42A For the purpose of determining whether an entity meets the legislative definition of a "specified not-for-profit entity", ~~applying the legislative size threshold,~~ where an entity has controlled entities,[5] total operating payments means the combined operating payments of the entity and all its controlled entities.[6] An entity may elect to report in accordance with Tier 4 PBE Accounting Requirements where the combined total operating payments of the entity and all its controlled entities do not mean the entity meets the legislative definition of a "specified not-for-profit entity" ~~exceed the legislative size threshold~~. Where the combined total operating payments mean the

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[3] The term "public accountability is used here with the meaning specified in this document. It is different from the manner in which it was used prior to 2011 in the Accounting Standards Framework. This meaning is also different from the way in which "publicly accountable" is normally used in the public sector and not-for-profit sector. While entities in the public sector and not-for-profit sector are generally considered to be publicly accountable, it does not mean that all entities in those sectors have public accountability (and are therefore in Tier 1). The definition of public accountability has a particular technical meaning and is narrower than the generic term publicly accountable as it is commonly used.

[4] Standard XRB A2 *Meaning of Specified Statutory Thresholds* sets out the meaning for the size threshold of a "specified not-for-profit entity". Standard XRB A2 can be accessed on: http://www.xrb.govt.nz/accounting-standards/for-profit-entities/xrb-a2/

[5] An entity determines whether it controls another entity in accordance with GAAP.

[6] The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

entity meets the legislative definition of a “specified not-for-profit entity” ~~exceed the legislative size threshold~~, the entity shall apply the criteria for other tiers to determine the appropriate tier for reporting.

…

Moving between tiers

…

Moving into Tier 3

…

Tier 4 to Tier 3

67 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently no longer meets the Tier 4 criteria but meets the Tier 3 criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.

68 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 3 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Requirements.

Moving into Tier 4

Tier 1, Tier 2 or Tier 3 to Tier 4

69 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 4 criteria because it no longer has public accountability, it must continue to apply Tier 1 PBE Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 4 PBE Accounting Requirements for the reporting period after it ceases to have public accountability.

70 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 4~~ size~~ criteria as it no longer meets the legislative definition of a “specified not-for-profit entity”, it may elect to apply Tier 4 PBE Accounting Requirements for the reporting period in which it no longer meets the legislative definition of a “specified not-for-profit entity” ~~Tier 4 size criteria~~.

71 Where an entity that had applied Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements subsequently meets the Tier 4 criteria as it no longer meets the legislative definition of a “specified not-for-profit entity”, it may elect to apply Tier 4 PBE Accounting Requirements for the reporting period in which it no longer meets the legislative definition of a “specified not-for-profit entity” ~~Tier 4 criteria~~.

72 Where an entity that had applied Tier 1 PBE Accounting Requirements, Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements subsequently applies Tier 4 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Requirements.

Paragraphs 81, 82, 83 and 84 are added along with associated headings. New text is underlined.

D. COMMENCEMENT AND APPLICATION

…

2025 Amendments to XRB A1 *Application of the Accounting Standards Framework*

81 *2025 Amendments to XRB A1 Application of the Accounting Standards Framework*, issued in [date 2025], amended the definition of public accountability, increased the Tier 1 size threshold for-profit public sector entities to $33 million of total expenses and clarified requirements for moving between tiers for PBEs. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 82-84. An entity that applies these amendments to an ‘early adoption accounting period’ shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

82 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on [date 2025] and takes effect on [date 2025].

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

83 The accounting periods in relation to which this amending Standard commences to apply are:.

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

84 In paragraph 83:

Early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) For which the early adopter:

(i) First applies this amending Standard in preparing its financial report; and

(ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

Mandatory date means 1 January 2027.

Paragraphs BC50. – BC60. are added. New text is underlined and deleted text is struck through.

BASIS FOR CONCLUSIONS ON STANDARD XRB A1 *APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK*

…

2025 Amendments to XRB A1 ***Application of the Accounting Standards Framework***

BC50. The XRB issued 2025 Amendments to XRB A1 Application of the Accounting Standards Framework to address several application challenges and to enhance the consistency of the Accounting Standards Framework.

Definition of public accountability

BC51. The definition of public accountability has been amended to reflect modifications to the definition of public accountability made by the IASB, and to address several application challenges. The XRB decided it was important to continue to reflect the IASB definition of public accountability within the definition of public accountability in XRB A1. Accordingly, the definition has been aligned for the minor alterations the IASB have made as part of its second comprehensive review of the IFRS for SMEs Accounting Standard, released in February 2025 (where the IASB define public accountability).

BC52. In addition, the XRB has received feedback that certain types of entities – namely, certain brokers – find paragraph 8(b) challenging to apply. Originally, paragraph 8(b) noted that *most* entities within the categories specified in that paragraph, including *most securities brokers/dealers*, would meet the 'fiduciary capacity' part of the IASB definition of public accountability. However, the XRB noted that in New Zealand, many entities referred to as 'brokers' do not hold client money or property. In many cases, the primary business of securities brokers/dealers is to buy/sell securities on behalf of clients and/or provide investment advisory and portfolio administration services. Under the Financial Markets Conduct Act 2013 (FMC Act), some securities brokers/dealers are classified as having "higher levels of accountability" compared to other FMC reporting entities, based on the nature of the service provided.

BC53. Some constituents also expressed concerns about paragraph 10 of XRB A1, noting it adds unnecessary complexity to the application of the definition of public accountability and can be difficult to interpret. Originally paragraph 10 noted that, notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a "higher level of public accountability" than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).

BC54. To address these concerns, the XRB amended the following.

(a) Paragraph 10 was replaced by paragraph 8A(a). The effect of paragraph 8A(a) is the same as paragraph 10. That is, an FMC reporting entity does not have public accountability under paragraph 8(b) if that entity does not have a 'higher level of public accountability' under the FMC Act. However, the wording of paragraph 8A(a) has been streamlined and clarified. To further enhance the understandability of this paragraph and how it interacts with paragraph 8(b), the paragraph is now located directly after paragraph 8(b).

(b) Paragraph 8A(b) was added, which clarifies that in New Zealand, judgement must be applied in determining whether an entity within a category specified in paragraph 8(b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This clarifies that the IASB statement that entities within these categories often meet the 'fiduciary capacity' part of the IASB definition of public accountability may not necessarily hold true for every specified category in New Zealand.

BC55. The XRB noted that these amendments do not alter, and there was no intention to alter, the IASB definition of public accountability. Instead, these amendments were only intended to clarify the application of the second part of that definition (paragraph 8(b)) in New Zealand.

BC56. The XRB also considered that paragraph 8A(a) should result in the same outcome as the removed paragraph 10. That is, the following still applies when an entity does not meet the first part of the IASB definition, i.e. paragraph 8(a).

(a) If the entity is an FMC reporting entity, then it has public accountability only if it is designated as having a 'higher level of public accountability' under the FMC Act.

(b) If the entity is not an FMC reporting entity, then it must consider whether it meets the second part of the IASB definition of public accountability, which relates to holding assets in a fiduciary capacity for a broad group of outsiders, i.e. paragraph 8(b).

BC57. Some constituents raised questions around whether it is logical that all non-FMC reporting entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses must report under Tier 1 – whereas FMC reporting entities in a similar position can report under Tier 2 if they do not have a 'higher level of public accountability' under the FMC Act (assuming that they are not a 'large' for-profit public sector entity or a 'large' PBE). The XRB considers that this outcome remains appropriate. The XRB recognises that the FMA, under the FMC Act, has the ability to vary the level of public accountability of an FMC reporting entity. In addition, under the FMC Act, FMC reporting entities that do not have a 'higher level of public accountability' are nevertheless subject to regulatory requirements, including in relation to holding assets for others. Non-FMC reporting entities are not subject to such regulatory requirements. Therefore, the XRB does not consider it appropriate to allow a non-FMC reporting entity to report under reduced reporting requirements if it holds assets in a fiduciary capacity for a broad group of outsiders as per paragraph 8(b). This was considered when XRB A1 was originally drafted and continues to be relevant.

BC58. The XRB notes that the definition of public accountability is important not only for the purpose of financial reporting, but also for audit and assurance purposes. The definition of public accountability is a key factor when determining whether an entity meets the Tier 1 criteria in this Standard. An entity that meets the Tier 1 criteria in this Standard and is not eligible to report in accordance with the requirements of another tier is classified as a 'public interest entity' (PIE) for audit and assurance purposes. Auditors of PIEs have additional independence requirements under Professional and Ethical Standard 1 (PES1). As the concerns about the definition of public accountability (paragraphs BC52 and BC53) originated mainly from assurance practitioners, the XRB added paragraphs 19A and 38A– to specify and emphasise the link between the Tier 1 criteria in this Standard and the definition of a public interest entity (PIE) for audit and assurance purposes.

Increase Tier 1 size threshold 'large' for the for-profit public sector entities

BC59. In February 2024, the XRB issued *Updated PBE Tier Sizes*, which raised the PBE Tier 1 size threshold from $30 million to $33 million of total expenses. To maintain consistency within the Accounting Standards Framework for Tier 1 reporters, and to prevent a public sector entity arbitraging across the two sectors, the

XRB decided to increase the Tier 1 size threshold for for-profit public sector entities from $30 million to $33 million of total expenses.

Tier 4 criteria and 'moving between tiers' provisions

BC60. The XRB received feedback that the Tier 4 criteria and corresponding 'moving between tiers' provisions within XRB A1 were unclear. This was particularly in the case when a PBE's total operating payments fall below $140,000 but were above $140,000 in preceding reporting periods. The relevant paragraphs have been amended to clarify that a PBE can only apply the PBE Tier 4 Requirements if it does not meet the legislative definition of a "specified not-for-profit entity". Therefore, a PBE must have at least one period in the preceding two periods where total operating payments were less than $140,000 to not be considered a "specified not-for-profit entity" and to be able to apply the PBE Tier 4 Requirements immediately when they meet the Tier 4 criteria (and the PBE must also not have public accountability).

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

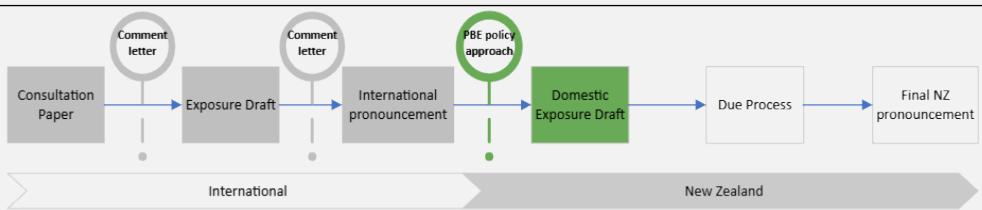
Date:	27 March 2025
To:	NZASB Members
From:	Tereza Bublikova
Subject:	***Exploration and Evaluation of Mineral Resources and Stripping Costs in the Production Phase of a Surface Mine***

COVER SHEET

Project overview

Project purpose	To develop guidance to account for: • The exploration for and evaluation of mineral resources; and • The benefits that may arise from the waste removal activity of a surface mine ("stripping" activity) using recent IPSASB pronouncements as a starting point.
Cost/benefit considerations	Please refer to the relevant section of this memo.
Project priority	**Low** The pronouncements are likely to have limited applicability in New Zealand.

Overview of agenda item

Project status	
Board action required at this meeting	**Low complexity** • **AGREE** with our recommended application of the PBE Policy Approach • **APPROVE** the following Exposure Drafts: ○ ED1: PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* ○ ED2: *Stripping Costs in the Production Phase of a Surface Mine – Proposed amendments to PBE IPSAS 12 Inventories*

Purpose and introduction[1]

1. In November 2024, the International Public Sector Accounting Standards Board (IPSASB) published *IPSAS 50, Exploration for and Evaluation of Mineral Resources* and amending standard *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12 *Inventories*) which provide guidance to account for exploration and evaluation activities and on treatment of stripping costs.

2. In accordance with the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach), the Board is required to consider if and when to incorporate those standards into the suite of PBE Standards as issued by the XRB. The purpose of this item is to seek the Board's feedback on and agreement with our recommendations in this regard and approval of the consultation documents.

Recommendations

3. We recommend that the Board:

   (a) **AGREE** with our recommended application of the PBE Policy Approach to IPSAS 50 and *Stripping Costs in the Production Phase of a Surface Mine*; and

   (b) **APPROVE** Exposure Draft *Exploration for and Evaluation of Mineral Resources* to be issued for public consultation with a 90-day consultation period in July 2025; and

   (c) **APPROVE** Exposure Draft *Stripping Costs in the Production Phase of a Surface Mine – Proposed amendments to PBE IPSAS 12 Inventories* to be issued for public consultation with a 90-day consultation period in July 2025.

Structure of this memo

4. The remaining sections in this memo are:

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

(f) [Appendix 2: Summary of the main proposals in ED Stripping costs in the Production Phase of a Surface Mine (ED2)– based on IPSASB pronouncements]

Background

5. In response to its May 2022 Natural Resources Consultation Paper, stakeholders raised comments that the IPSASB's literature did not provide accounting guidance for the evaluation and extraction of mineral resources. This lack of guidance was especially problematic in situations where a public sector entity operated a mining asset with a private sector entity, because this could result in diverse accounting practice between the entities.

6. The IPSASB noted that several jurisdictions had entered into production sharing or co-production agreements with private companies, rather than the traditional mining licensing or royalty agreements. Such agreements may fall within the scope of PBE IPSAS 37, *Joint Arrangements*, and it is possible for the resulting joint operation or joint venture to incur exploration, evaluation and stripping costs.

7. To enable consistent accounting for similar transactions between the public and private sector the IPSASB issued Exposure Drafts *ED 86, Exploration for and Evaluation of Mineral Resources* and *ED 87, Stripping costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)* in January 2024. The NZASB did not comment on the EDs and did not receive any submissions from New Zealand stakeholders. ED 86 and ED 87 each received 28 responses from IPSASB's world-wide constituents and both EDs received strong support.

8. The final pronouncements *IPSAS 50, Exploration for and Evaluation of Mineral Resources* and *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12 *Inventories*) were published in November 2024. The pronouncements are mandatory for annual periods beginning on or after 1 January 2027.

Summary of the pronouncements

IPSAS 50 Exploration for and Evaluation of Mineral Resources

9. IPSAS 50 introduces accounting for expenditure incurred in the exploration for and evaluation of mineral resources. The standard is aligned with the requirements in IFRS 6, *Exploration for and Evaluation of Mineral Resources*.

10. The main difference between IFRS 6 and IPSAS 50 is different terminology. For example, IPSAS 50 uses the terms "historical cost", and "impairment of cash-generating assets", while IFRS 6 uses the terms "cost model", "revaluation model", and "impairment of assets".

11. For summary of the main pronouncements in IPSAS 50 please refer to the Appendix 1 below.

Stripping Costs in the Production Phase of a Surface Mine

12. The amending standard *Stripping Costs in the Production Phase of a Surface Mine* adds an authoritative appendix to IPSAS 12, *Inventories*, which provides interpretive guidance on when to capitalise or expense costs incurred to remove waste material in surface mining operations.

13. This guidance is aligned with the guidance in IFRIC 20, *Stripping costs in the Production Phase of a Surface Mine*, with limited changes of terminology for the public sector.

14. For summary of the main pronouncements please refer to the Appendix 2 below.

Application of the PBE Policy Approach

15. The PBE Policy Approach establishes a rebuttable presumption that the Board will adopt a new or amended IPSAS. The PBE Policy Approach states that it is expected that the adoption of a new or amended IPSAS will lead to higher quality financial reporting by public benefit entities (PBEs) in New Zealand and the factors in the development principle are presumed to be met.

Cost/benefit considerations

16. We are not aware of any PBE in New Zealand currently directly engaged in mining activities. However, it may be possible that such PBEs will exist in future, given mining permits continue to be issued by New Zealand Petroleum and Minerals (NZP&M) and given the new forms of mining collaborations between local government and private companies are being introduced internationally. Also in the past, some for-profit entities within mixed groups have been involved in mining activities (e.g. Solid Energy New Zealand).

17. The key benefit of adopting these proposals into the PBE Standards is to future-proof the standards in a prospective manner in case PBEs do start engaging in mining activities in the future. We consider being preventative, rather than reactionary, provides greater certainty and clarity for preparers, reducing cost associated with uncertainty and enabling better decision-making when assessing the financial reporting implications of entering into these types of activities.

18. Introducing these changes to the PBE Standards will mean PBE entities who may start engaging in mining activities will benefit from:

- Enhanced guidance, as there is no specific guidance on exploration and evaluation activities or on treatment of stripping cost in PBE Standards;
- Allows for an appropriate accounting policy for exploration and evaluation assets to be developed without following the strict hierarchy of IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors;*
- Alignment of PBE Standards and NZ IFRS Standards for mixed group entities including increased harmonisation with Australia (given Australian PBEs report under IFRS standards); and
- Alignment of PBE Standards with IPSAS for entities which may want to enter global joint arrangements.

19. The standards are based on existing NZ IFRS Standards and have very limited application in New Zealand. Therefore, we cannot accurately gauge the costs which may arise from applying these proposals. However, we do not expect any PBE to incur significant costs by bringing these proposals into the PBE Standards.

20. Based on our analysis above we recommend developing PBE Standards, using IPSAS 50 and *Stripping Costs in the Production Phase of a Surface* as a starting point.

Question for the Board
Q1. Does the Board **AGREE** to develop a new PBE Standard, using IPSAS 50, *Exploration for and Evaluation of Mineral Resources* as a starting point*?*
Q2. Does the Board **AGREE** to develop an amending standard, using *Stripping Costs in the Production Phase of a Surface* as a starting point?

Exposure Drafts

Draft ED - PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources (ED1)

21. The draft ED *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources* (ED1) is attached as Agenda Item 7.1b. The proposals are aligned with the IPSAS 50 except of:

- **Different terminology** – ED1 refers to “cost model” or “revaluation model” (in line with PBE IPSAS 17 *Property, Plant, and Equipment* and PBE IPSAS 31 *Intangible Assets*) while IPSAS 50 refers to “historical cost model” or “fair value” (in line with IPSAS 45 *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*);
- **References to segment reporting** – References to segment reporting in line with IPSAS 18, *Segment Reporting* were removed from the ED1 as IPSAS 18 has not been incorporated into the PBE Standards;
- **NZ specific scope paragraph added** – This paragraph specifies that the Standard is applicable to Tier 1 and Tier 2 PBE entities; and
- **NZ specific commencement and application paragraphs** – Modifications to the IPSASB’s ‘effective date’ wording were made to ensure consistency with the Financial Reporting Act and the Legislation Act 2019.

Draft ED - Stripping Costs in the Production Phase of a Surface (ED2)

22. The draft ED *Stripping costs in the Production Phase of a Surface Mine* (ED2) is attached as Agenda Item 7.1c. The proposals are aligned with the IPSASB pronouncements except of:

- **Different terminology** – ED2 refers to “costs” (in line with PBE IPSAS 17 and PBE IPSAS 31) while IPSASB pronouncements refer to “historical costs” or “fair value” (in line with IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*);
- **NZ specific commencement and application paragraphs** – Modifications to the IPSASB’s ‘effective date’ wording were made to ensure consistency with the Financial Reporting Act and the Legislation Act 2019; and
- **NZ specific scope and introduction sections** – Those sections specify that the Standard is applicable to Tier 1 and Tier 2 PBE entities and explain reasons of these amendments to the existing PBE IPSAS 12.

Commencement and application

23. We propose a mandatory date 1 January 2027 for both EDs, as aligned with the mandatory date of the equivalent IPSASB pronouncements.

24. Earlier application would be permitted for accounting periods that begin before 1 January 2027, but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

> **Question for the Board**
>
> Q3. Does the Board have any comments on the draft ED *Exploration for and Evaluation of Mineral Resources* or ED *Stripping costs in the Production Phase of a Surface Mine*?

RDR concessions

25. Disclosure requirements proposed by ED1 are summarised in the Appendix 1.

26. We recommend **not** to provide any RDR concession for Tier 2 PBEs in relation to these new disclosure requirements on the basis that:
    - The required disclosures relate to key disclosure area (accounting policies on recognition) which are important for users to understand the financial statements;
    - NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources* does not provide any RDR concessions, and we have not found any PBE-specific reason for providing RDR concessions to Tier 2 PBEs; and
    - Providing these disclosures should not be costly, as the necessary information should already be available through the application of PBE IPSAS 50.

27. There is no new disclosure requirements proposed through the amendments in ED2.

> **Question for the Board**
>
> Q4. Does the Board **AGREE** with not proposing any RDR concessions to the new disclosure requirements included in ED PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*?

Timing of the consultation

28. These EDs are expected to have have very limited application in New Zealand. As such, we do not propose developing a detailed Consultation Document. We plan to promote awareness of these EDs through accounting alerts and providing reminders to PBEs when we engage with them on other projects (such as service performance reporting and PBE IPSAS 47 *Revenue* and PBE IPSAS 48 *Transfer Expenses*).

29. We will solicit feedback on overarching questions around the proposals, which includes:
    - Whether respondents agree with the proposed PBE IPSAS 50;
    - Whether respondents agree with the proposed amendments to PBE IPSAS 12;

- Whether respondents have views on the costs and benefits from these proposals for both preparers and users;
- Whether respondents agree with the proposed mandatory dates;
- Whether respondents have any other feedback on the ED.

30. We note the XRB's current projects on PBE FRS 48 *Service Performance Reporting*, and upcoming EDs on PBE IPSAS 47 *Revenue* and PBE IPSAS 48 *Transfer Expenses* will be placing demands on PBE stakeholders throughout 2025. However, given these proposals will have very limited application in New Zealand, we plan to issue these EDs in July 2025 to allow for messages on these proposals to be communicate when we are engaging with PBEs.

31. In terms of the consultation period, we recommend the standard time of (approximately) 90 days and do not consider there are any compelling reasons to extend or shorten this timeframe.

32. The expected timeline is outlined below:

Question for the Board

Q5. Does the Board have any comments on the timing of the consultation?

Q6. Does the Board **AGREE** to a 90-day consultation period for both EDs?

Q7. Does the Board **APPROVE** issuing ED PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* (subject to any comments raised at this meeting to be finalised via review by the Chair)?

Q8. Does the Board **APPROVE** the ED *Stripping costs in the Production Phase of a Surface Mine – Proposed Amendments to PBE IPSAS 12 Inventories* (subject to any comments raised at this meeting to be finalised via review by the Chair)?

Attachments

Agenda item 7.1b	*Draft ED1 PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources*
Agenda item 7.1c	*Draft ED2 Stripping Costs in the Production Phase of a Surface Mine – Proposed Amendments to PBE IPSAS 12 Inventories*

Appendix 1:

Summary of the main proposals in ED *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources* (ED1) – based on IPSASB pronouncements

ED1 *Exploration for and Evaluation of Mineral Resources* proposals	Ref
Scope ED1 applies to exploration and evaluation expenditures that are incurred: a) After entity has obtained the legal rights to explore a specific area; and b) Before technical feasibility and commercial viability of extracting a mineral resource are demonstrable. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable an exploration and evaluation asset shall no longer be classified as such and shall be reclassified.	Para 3-5, and 18
Exemption from PBE IPSAS 3 ED1 permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 14 and 15 of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* which specify a hierarchy of criteria that an entity should use in developing an accounting policy if no PBE IPSAS applies specifically to an item or transaction[2].	Para 7-8
The impact of the exemption is limited by identifying expenditures to be included in and excluded from exploration and evaluation assets.	Para 10-12
Measurement Exploration and evaluation assets shall be measured at cost. Subsequently the cost model or the revaluation model shall be applied.	Para 9 and 13
Impairment When facts and circumstances suggest that the carrying amount of the exploration and evaluation assets may exceed their recoverable amount an entity shall perform an impairment test. The ED1 varies the recognition of impairment from that in PBE IPSAS 26, *Impairment of Cash-Generating Assets*, but measures the impairment in accordance with PBE IPSAS 26 once the impairment is identified.	Para 19-23

[2] Those proposals are aligned with IFRS 6 pronouncements. In 2023 the IASB completed their comprehensive review of the accounting for extractive activities. The IASB decided not to develop new or amended recognition, measurement or disclosure requirements for exploration and evaluation expenditure or other aspects of accounting for extractive activities. The IASB acknowledged that diverse accounting policies for exploration and evaluation expenditure would continue to be used in practice. However, feedback from investors and other users of financial statements suggested that those diverse accounting policies were not a significant concern. Based on those findings the IASB decided to remove the temporary nature of the exemption. Therefore, we believe that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the PBE sector.

Disclosures Entity should disclose: (a) Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets; and (b) The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources. Exploration and evaluation assets should be treated as a separate class of assets and an entity should provide disclosures required by either PBE IPSAS 17 or PBE IPSAS 31 consistent with how the assets are classified.	Para 24-26

Appenidx 2:

Summary of the main proposals in ED *Stripping costs in the Production Phase of a Surface Mine* (ED2) – based on IPSASB pronouncements

ED2 *Stripping costs in the Production Phase of a Surface Mine* proposals	Ref
Recognition There are two potential benefits accruing to the entity from stripping activities: 1. Providing access to ore bodies so these can be extracted. Those should be recognised as inventory in line with PBE IPSAS 12; and 2. Improved access to further quantities for future mining which should be recognised as non-current "stripping activity asset" if specified criteria are met. Otherwise, those cost are recognised as an expense.	Para A1-A8
The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset. The nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.	Para A10 – A11
Measurement Stripping activity asset shall be measured at cost. ED2 specifies what costs expenditures to be included in and excluded from the stripping activity asset. Subsequently the cost model or the revaluation model shall be applied.	Para A12-A16

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed New Accounting Standard for Exploration for and Evaluation of Mineral Resources

PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*

Exposure Draft

Submissions close 30 September 2025

July 2025

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2025-X

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 50 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES (PBE IPSAS 50)

Issued [date]

This New Zealand Tier 1 and Tier 2 Public Benefit Entity (PBE) Accounting Standard has been issued as a result of a new International Public Sector Accounting Standard – IPSAS 50, *Exploration for and Evaluation of Mineral Resources*.

In finalising this [draft][1] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of Standard

This [draft] Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is secondary legislation for the purposes of the Legislation Act 2019.

The Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The [draft] Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

The [draft] Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this [draft] Standard takes effect – refer to paragraphs 28.1–28.1.3 of this [draft] Standard.

Tier 2 PBE entities

Tier 2 PBE entities must comply with all the provisions in PBE IPSAS 50.

[1] References to "this Standard" throughout this Exposure Draft should be read as referring to "this [draft] Standard".

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ISBN: [XXX]

PBE IPSAS 50 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

CONTENTS

Public Benefit Entity International Public Sector Accounting Standard 50 *Exploration for and Evaluation of Mineral Resources* is set out in paragraphs 1–29 and Appendix A. All the paragraphs have equal authority. PBE IPSAS 50 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 50, the IPSASB's Basis for Conclusions on IPSAS 50, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

[2]The IPSASB Basis for Conclusions will be made available as additional material once PBE IPSAS 50 is issued. A complete copy of IPSAS 50 is available on the IPSASB website.

Objective

1. The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources.

2. In particular, the Standard requires:

   (a) Limited improvements to existing accounting practices for exploration and evaluation expenditures.

   (b) Entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with PBE IPSAS 26 *Impairment of Cash-Generating Assets*.

   (c) Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

Scope

3. An entity that prepares and presents financial statements shall apply this Standard to exploration and evaluation expenditures that it incurs.

3.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

4. This Standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

5. An entity shall not apply this Standard to expenditures incurred:

   (a) Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

   (b) After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   <u>Exploration and evaluation assets</u> means exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.

   <u>Exploration and evaluation expenditures</u> means expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

   <u>Exploration for and evaluation of mineral resources</u> means the search for mineral resources, including minerals, oil, natural gas, and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

   Any other terms defined in other PBE Standards 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 of Exploration and Evaluation Assets

7. **When developing its accounting policies, an entity recognizing exploration and evaluation assets shall apply paragraph 12 of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.**

Exemption from PBE IPSAS 3 Paragraphs 14 and 15

8. Paragraphs 14 and 15 of PBE IPSAS 3 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no PBE Standard applies specifically to that item. Subject to paragraphs 10 and 11 below, this Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

Measurement of Exploration and Evaluation Assets

Initial Measurement

9. **Exploration and evaluation assets shall be measured at cost.**

Elements of Cost of Exploration and Evaluation Assets

10. An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

    (a) Acquisition of rights to explore;

    (b) Topographical, geological, geochemical and geophysical studies;

    (c) Exploratory drilling;

    (d) Trenching;

    (e) Sampling; and

    (f) Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

11. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. *Public Benefit Entities' Conceptual Framework* and PBE IPSAS 31 *Intangible Assets* provide guidance on the recognition of assets arising from development.

12. In accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Subsequent Measurement

13. An entity shall apply the cost model or the revaluation model to the exploration and evaluation assets. If revaluation model is applied (either according to the model in PBE IPSAS 17 *Property, Plant, and Equipment*, or according to the model in PBE IPSAS 31) it shall be consistent with the classification of the assets (see paragraph 16).

Changes in Accounting Policies

14. **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in PBE IPSAS 3.**

15. To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in PBE IPSAS 3, but the change need not achieve full compliance with those criteria.

Presentation

Classification of Exploration and Evaluation Assets

16. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

17. Some exploration and evaluation assets are treated as intangible (e.g., drilling rights), whereas others are tangible (e.g., vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of Exploration and Evaluation Assets

18. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

Impairment

Recognition and Measurement

19. **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with PBE IPSAS 26, except as provided by paragraph 22 below.**

20. For the purposes of exploration and evaluation assets only, paragraph 21 of this Standard shall be applied rather than paragraphs 25–29 of PBE IPSAS 26 when identifying an exploration and evaluation asset that may be impaired. Paragraph 21 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit, in the case of cash-generating assets per PBE IPSAS 26.

21. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

    (a) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

    (b) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

    (c) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

    (d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full, from successful development or by sale.

    In any such case, or similar cases, the entity shall perform an impairment test in accordance with PBE IPSAS 26. Any impairment loss is recognised as an expense in accordance with PBE IPSAS 26.

Specifying the Level at which Exploration and Evaluation Assets are Assessed for Impairment

22. An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

23. The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Disclosure

24. **An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**

25. To comply with paragraph 24, an entity shall disclose:

 (a) Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

 (b) The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

26. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either PBE IPSAS 17 or PBE IPSAS 31 consistent with how the assets are classified.

Commencement and Application

27–28. [Not used]

28.1 An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 28.1.1. – 28.1.3. An entity that applies this Standard to an 'early adoption accounting period' shall disclose that fact.

When the Standard takes effect (section 27 Financial Reporting Act 2013)

28.1.1 The Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

28.1.2 The accounting periods in relation to which this Standard commences to apply are:

 (a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

 (b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

28.1.3 In paragraph 28.1.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

 (a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and

 (b) For which the early adopter:

  (i) First applies this Standard in preparing its financial report; and

  (ii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means 1 January 2027.

Transitional Provisions

29. If it is impracticable to apply a particular requirement of paragraph 19 to comparative information that relates to annual periods beginning before January 1, 2027, an entity shall disclose that fact. PBE IPSAS 3 explains the term 'impracticable'.

Appendix A

Amendments to Other Standards

Amendments to PBE IPSAS 31 *Intangible Assets*

Paragraph 3 is amended, and paragraphs 133.10 – 133.10.3 are added. New text is underlined, and deleted text is struck through.

Scope

…

3. This Standard does not apply to:

…

(c) The recognition and measurement of exploration and evaluation assets (see PBE IPSAS 50, *Exploration for and Evaluation of Mineral Resources* ~~the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources~~).

…

Commencement and application

…

PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources

133.10 The Standard *PBE IPSAS 50 Exploration for and Evaluation of Mineral Resources*, issued in [month year] amended paragraph 3. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 133.10.1–133.10.3. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

When the Standard takes effect (section 27 Financial Reporting Act 2013)

133.10.1 The Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

133.10.2 The accounting periods in relation to which this Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

133.10.3 In paragraph 133.10.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and

(b) For which the early adopter:

(i) First applies this Standard in preparing its financial report; and

(ii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means 1 January 2027.

XRB A1 *Application of the Accounting Standards Framework*

Appendix C is amended. New text is underlined.

APPENDIX C

TIER 1 PBE ACCOUNTING REQUIREMENTS AND TIER 2 PBE ACCOUNTING REQUIREMENTS TO BE APPLIED BY PUBLIC BENEFIT ENTITIES

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

…

Accounting Standards

…

PBE IPSAS 50	Exploration for and Evaluation of Mineral Resources

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 50.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 50, *Exploration for and Evaluation of Mineral Resources* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, the language has been generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 50 are generally appropriate for application by public benefit entities.

BC2. The following extracts from the IPSASB's Basis for Conclusions provide background to this Standard.

Exploration for and Evaluation of Mineral Resources in the Public Sector

BC4. An entity will typically need to conduct exploration and evaluation activities to determine if a site should be developed. Before this Standard, there was no specific guidance on exploration and evaluation activities in IPSAS.

BC5. The IPSASB determined that guidance on exploration and evaluation costs should be aligned with IFRS 6, applicable to exploration and evaluation activities of a commercial nature, and not of a service delivery nature. In reaching this conclusion, the IPSASB determined that a number of resource-rich jurisdictions had entered into production sharing or co-production agreements with private companies, rather than the traditional mining licensing or royalty agreements. The IPSASB found that from the public sector entity's perspective, such agreements may fall within the scope of IPSAS 37, *Joint Arrangements*, and it is possible for the resulting joint operation or joint venture to incur exploration and evaluation costs.

BC6. The IPSASB noted that an entity may explore for mineral resources due to other rights, e.g., sovereign rights, without needing a license (a legal right). The IPSASB determined that, in such instances, the exploration and evaluation expenditures are within the scope of this Standard.

BC7. Respondents to the IPSASB's Consultation Paper, *Natural Resources* generally agreed with the IPSASB's approach to develop the Standard aligned with IFRS 6.

BC8. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRS 6 in the development of this Standard, except for terminology and other IPSASB-specific formatting and consistency amendments. The IPSASB decided to retain the terminology of "commercial viability" and "impairment of cash-generating assets" used in IFRS 6, because the Standard is only applicable to exploration and evaluation activities of a commercial nature, and it is considered that this would be a relevant to public sector entities who use the Standard.

BC9. The IPSASB noted the view of some respondents to Exposure Draft 86 that the Standard should provide guidance to recognize, as intangible assets, the State's power to issue exploration rights to entities. The IPSASB noted that accounting by the issuer of the exploration rights is not in the scope of this Standard and noted, furthermore, that powers and rights conferred by legislation, a constitution, or by equivalent means, such as mining rights managed by the state itself, are also excluded from the scope of IPSAS 31, *Intangible Assets*.

Comparison with the Conceptual Framework

BC10. The IPSASB noted that where an entity chooses an accounting policy that recognizes and measures the exploration and evaluation expenditure as assets, that policy may not be consistent with the definition of an asset in the Conceptual Framework. Recent outreach by the IASB noted that private sector constituents generally agreed that IFRS 6 resulted in information that was useful to both preparers and users of IFRS financial statements. The IPSASB noted that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the public sector and concluded that the exemption from applying paragraphs 14 and 15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provided for in paragraph 8 of the Standard is acceptable.

…

Reversal of impairment losses

BC13. The IPSASB noted that for the reversal of impairment losses, entities should apply the specified requirements set out in paragraphs 99–105 of IPSAS 26, *Impairment of Cash-Generating*

Assets, because these requirements apply to all entities for all assets (excluding goodwill and equity investments classified as available for sale).

Comparison with IPSAS 50

PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources* is drawn from IPSAS 50, *Exploration for and Evaluation of Mineral Resources.*

The significant differences between PBE IPSAS 50 and IPSAS 50 are:

(a) PBE IPSAS 50 uses different terminology from IPSAS 50. For example, PBE IPSAS 50 refers to "cost model" or "revaluation model" (in line with PBE IPSAS 17 *Property, Plant, and Equipment* and PBE IPSAS 31 *Intangible Assets*) while IPSAS 50 refers to "historical cost model" or "fair value" (in line with IPSAS 45 *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*).

(b) PBE IPSAS 50 does not contain requirement regarding size of the cash generating unit. IPSAS 50 specify that the size of the cash generating unit cannot exceed the segment determined in accordance with IPSAS 18, *Segment Reporting*.

(c) PBE IPSAS 47 includes additional consequential amendment to XRB A1 *Application of the Accounting Standards Framework.* Furthermore, in PBE IPSAS 50, the consequential amendments, that do not relate to PBE Standards (IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*) have been removed.

History of Amendments

Table of Pronouncements – PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*

This table lists the pronouncements establishing and substantially amending PBE IPSAS 41.

Pronouncements	**Date issued**	**Early operative date**	**Mandatory date (annual reporting periods… on or after …)**
PBE IPSAS 50 *Exploration for and Evaluation of Mineral Resources*	[Date]	Early application is permitted	[Proposed] 1 Jan 2027

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Stripping Costs in the Production Phase of a Surface Mine

Proposed amendments to PBE IPSAS 12 *Inventories*

Exposure Draft

Submissions close 30 September 2025

July 2025

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2025-X

Stripping Costs in the Production Phase of a Surface Mine ([Proposed] Amendments to PBE IPSAS 12 *Inventories*)

Issued [date]

This Tier 1 and Tier 2 [draft] PBE amending Standard is based on *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued by the International Public Sector Accounting Standards Board (IPSASB) which in turn are aligned with IFRIC 20 *Stripping costs in the Production Phase of a Surface Mine*. This [draft] amending Standard provides interpretive guidance when to capitalise or expense costs incurred to remove waste material in surface mining operations.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This [draft][1] amending Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The [draft] amending Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

The [draft] amending Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this [draft] Standard takes effect – refer to paragraphs 52.7 – 52.7.3 of this [draft] amending Standard.

[1] References to "this amending Standard" throughout this Exposure Draft should be read as referring to "this [draft] amending Standard".

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ISBN: [XXX]

CONTENTS

Part A – Introduction

This amending Standard sets out amendments to PBE IPSAS 12 *Inventories*. The amendments are based on *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued by the International Public Sector Accounting Standards Board (IPSASB) which in turn are aligned with IFRIC 20 *Stripping costs in the Production Phase of a Surface Mine*. This amending Standard provides interpretive guidance when to capitalise or expense costs incurred to remove waste material in surface mining operations.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public sector public benefit entities.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part C – Amendments to PBE IPSAS 12 *Inventories*

Paragraphs 52.7 – 52.7.3, 52A-52C and Appendix A are added. The heading above paragraph 52.7 is amended. The headings above paragraphs 52.7 and 52A are added. New text is underlined and deleted text is struck through.

~~Effective Date~~ Commencement, Application and Transition

Commencement and Application

…

Stripping Costs in the Production Phase of a Surface Mine

52.7. The amending Standard *Stripping Costs in the Production Phase of a Surface Mine*, issued in [month, year] added Appendix A. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs 52.7.1-52.7.3. An entity that applies those amendments to an 'early adoption accounting period' shall disclose that fact.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

52.7.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)

52.7.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

52.7.3 In paragraph 52.7.2:

Early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) For which the early adopter:

(i) First applies this amending Standard in preparing its financial report; and

(ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

Mandatory date means 1 January 2027.

Transition

52A. An entity shall apply Appendix A to production stripping costs incurred on or after the beginning of the earliest period presented.

52B. As at the beginning of the earliest period presented, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase (‘predecessor stripping asset’) shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.

52C. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening accumulated surplus or deficit at the beginning of the earliest period presented.

Appendix A

Stripping Costs in the Production Phase of a Surface Mine

This Appendix is an integral part of PBE IPSAS 12.

Introduction

A1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

A2. During the development phase of the mine (before production begins), stripping costs are usually capitalised as part of the depreciable cost of building, developing and constructing the mine. Those capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.

A3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

A4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

A5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

A6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

A7. This Appendix addresses the following issues:

(a) Recognition of production stripping costs as an asset;

(b) Initial measurement of the stripping activity asset; and

(c) Subsequent measurement of the stripping activity asset.

Application of PBE IPSAS 12 to Stripping Cost in the Production Phase of a Surface Mine

Recognition of production stripping costs as an asset

A8. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of PBE IPSAS 12 *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, if the criteria in paragraph A9 below are met. This Appendix refers to the non-current asset as the 'stripping activity asset'.

A9. An entity shall recognise a stripping activity asset if, and only if, all of the following are met:

(a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) The entity can identify the component of the ore body for which access has been improved; and

(c) The costs relating to the stripping activity associated with that component can be measured reliably.

A10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.

A11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

A12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

A13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a) Cost of inventory produced compared with expected cost;

(b) Volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c) Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

A14. After initial recognition, the stripping activity asset shall be carried, in the same way as the existing asset of which it is a part, at either its:

- Cost less any accumulated depreciation or amortisation and less any accumulated impairment losses, or
- Revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation or amortisation and less any subsequent accumulated impairment losses.

A15. The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

A16. The expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Paragraph BC6 and the related heading are added. For ease of reading, new text is not underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 12

…

Stripping Costs in the Production Phase of a Surface Mine

BC6. IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* issued by IASB in October 2011 provided interpretive guidance when to capitalise or expense costs incurred to remove waste material in surface mining operations. The IPSASB subsequently made equivalent amendments to IPSAS 12 *Inventories*, by issuing amending standard *Stripping Costs in the Production Phase of a Surface Mine* in November 2024. The NZASB therefore made equivalent amendments to PBE IAS 12, by issuing *Stripping Costs in the Production Phase of a Surface Mine* in [month, year].

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

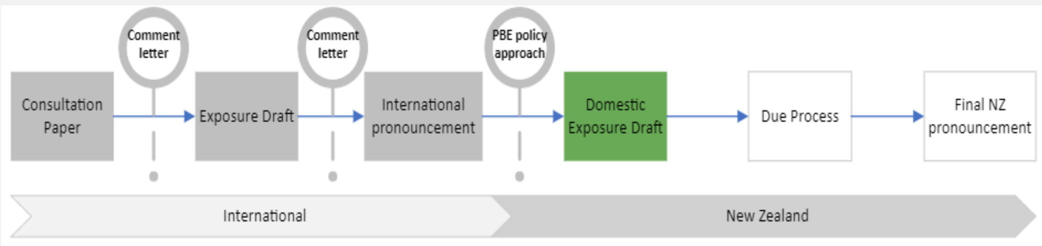
Date:	27 March 2025
To:	NZASB Members
From:	Leana van Heerden and Carly Berry
Subject:	**Outreach plan – Revenue and Transfer Expenses**

COVER SHEET

Project priority and complexity

Project purpose	**IPSASB perspective:** • *Revenue* – establish a cohesive approach to account for revenue transactions by replacing the three existing revenue standards with a unified framework. • *Transfer expenses* – develop a standard that provides recognition and measurement requirements applicable to providers of transfer expenses. **XRB perspective:** Develop new PBE Standards for revenue and transfer expenses using IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* as respective starting points, while also ensuring that the standards are fit-for-purpose in New Zealand.
Cost/benefit considerations	The cost/benefit considerations of these projects were covered at the June 2023 and December 2024 NZASB meeting.
Project priority	**High** IPSAS 47 and IPSAS 48 introduces new accounting models for revenue and transfer expense focused on whether or not a binding arrangement exists. As Revenue and Transfer Expenses are prevalent and significant across both the not-for-profit (NFP) and public sectors (PS), the PBE Standards need to be fit-for-purpose in New Zealand.

Overview of agenda item

Project status	
Board action required	**Low complexity** • Provide **FEEDBACK** on our proposed outreach plan.

Introduction

1. The Exposure Drafts (ED) and consultation papers (CP) for PBE IPSAS 47 *Revenue* and PBE IPSAS 48 *Transfer Expenses* were approved at the February 2025 NZASB meeting, subject to changes raised by the Board at that meeting being finalised via review by the Chair.

2. Since the February meeting, the Chair has reviewed and finalised those changes to the EDs and CPs. The updated draft EDs and CPs are included in the supporting papers for noting.

3. At this meeting, we discuss the specifics of our proposed outreach activities and the timing of these activities. Additionally, as part of the supporting papers, we have included links to two webcasts, as examples of the type of content we intend to release to support the EDs. The table below sets out the content of agenda item 9.

Item #	Title
9.1a	**Outreach plan – Revenue and Transfer Expenses**
9.1b (supp paper)	**Draft ED PBE IPSAS 47** This draft will undergo quality checks and internal peer reviews before publication.
9.1c (supp paper)	**Draft CP for ED PBE IPSAS 47** This draft will undergo quality checks and internal peer reviews before publication.
9.1d (supp paper)	**Draft ED PBE IPSAS 48** This draft will undergo quality checks and internal peer reviews before publication.
9.1e (supp paper)	**Draft CP for ED PBE IPSAS 48** This draft will undergo quality checks and internal peer reviews before publication.
9.1f (supp paper)	**Webcasts – "IPSAS 47 & IPSAS 48 teaser with Ian Carruthers (IPSASB Chair)" and "Binding arrangement principle"**

4. A high-level timeline of planned future actions on these projects is provided in Appendix 1. We plan to issue the EDs on **Wednesday 4 June 2025**, with a 180-day consultation period. The closing date for submissions is **Monday 1 December 2025**.

Recommendations

5. We recommend that the Board provide **FEEDBACK** on our proposed outreach plan.

Structure of this memo

6. This memo includes the following sections:

Outreach plan

7. Given the significant changes these EDs propose to the accounting for revenue and transfer expenses, our outreach plan is designed to both educate stakeholders and gather feedback on the specific proposals. We intend to undertake targeted and broad-scope outreach activities.

8. As noted at the February 2025 NZASB meeting the consultation on Service Performance Information (SPI), as discussed under agenda item 10.1a, is also set to occur this year, through a discussion paper phase, and then an Exposure Draft phase. The timeline for our consultation and approval of PBE IPSAS 47 and PBE IPSAS 48 was determined with this in mind. Refer to Appendix 2 which illustrates the updated intersection between these projects.

9. The outreach will be conducted in three phases:

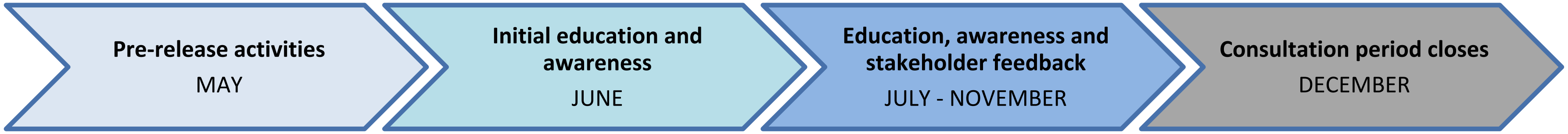
- **Phase 1 (May) –** This will include pre-release communications to raise awareness of the upcoming EDs.
- **Phase 2 (June) –** This will be followed by the release of the EDs in June 2025, alongside pre-prepared educational materials to assist stakeholders in understanding the proposals. During this phase, we will also engage in initial awareness and educational outreach. The activities in this phase are limited, to allow stakeholders to focus on the open consultation on SPI.
- **Phase 3 (July – November) –** An education, awareness and stakeholder feedback phase will then provide opportunities for stakeholders to engage with the content through deep dive education material, consultation drop-in sessions, roundtables, and written submissions.

10. Figure 1 and the table below outline the key outreach activities planned for each phase, ensuring a structured approach to stakeholder engagement while considering other concurrent consultations and responsibilities that stakeholders may have (e.g. annual financial reporting) during the six-month consultation period.

11. IPSASB Standards are designed for public sector entities, therefore, it is crucial to obtain feedback from NFP entities to ensure these proposals are fit-for-purpose. To achieve this, we will leverage existing XRB contacts to effectively engage with NFP stakeholders. We plan to compile a targeted list of NFP entities to engage with. Additionally, we will work closely with Charities Services to identify opportunities for collaboration.

12. If additional outreach opportunities arise during the consultation period, we will assess their relevance based on the target audience and intended objectives, and we will introduce further education activities as needed. As such, the table reflects the minimum outreach activities and actions planned at this stage.

Figure 1



13. A detailed outreach plan is provided in the table below.

Phase	Date	Activity	Key messages	Audience
Pre-release activities	Early May	Accounting alert and Pitopito Kōrero	Watch teaser video with IPSASB Chair Ian Carruthers - Big changes are coming - The way entities account for revenue and transfer expenses will be different - The proposed EDs and consultation papers will be released shortly - Watch this space for further information and understanding of the changes	All stakeholders
		Introduction webpage		
		Ian Carruthers teaser video		
	21–22 May	Brief introduction to upcoming EDs at CAANZ audit and accounting conferences		CAANZ members
Initial education and awareness	4 June	Accounting alert and Pitopito Kōrero	- The EDs are now available; - We have prepared resources to help you understand the key proposals; - Watch this space to join in our upcoming webinars and information sessions; and - Your feedback matters.	All stakeholders
		Update webpage to issue EDs and CPs. Additionally, webpage to include:		
		- 2 x one-page summaries	Summary of ED PBE IPSAS 47 and ED PBE IPSAS 48	
		- Educational Video 1	New principles (Binding arrangement and enforceability)	
		- Educational Video 2	Revenue with and without binding arrangements and revenue deferral.	
		- Educational Video 3	Transfer expenses with and without binding arrangements.	

Phase	Date	Activity	Key messages	Audience
	6–13 June	Promote open consultations at SPI events	The key messages will align with those in the accounting alert on 4 June 2025.	PBE preparers
	Last week of June	PBE Need to know	- Gain key insights into the proposals in the EDs. - As you head into your reporting period, we'll highlight what you need to know now so you can start considering how these changes may impact your financial reporting. - Emphasise the available educational guidance materials that they can consult for reference.	PBE finance professionals
Education, awareness and stakeholder feedback	Jul–Nov	Accounting alerts & Pitopito Kōrero	- Stay informed with ongoing updates, insights, and guidance. - Understand how the proposals may affect your financial reporting and implementation. - Register for webinars and discussions to explore changes and engage with us. - Share your views to help shape the final standards.	All stakeholders
	Jul–Aug	Deep-dive lunch and learn videos on specific transaction types	These learning videos will be short (less than 5 minutes) to highlight how specific transactions are accounted for under the ED proposals. We intend to use illustrative examples. We may invite Board members to share their views on specific transaction types in learning videos. Transaction types to cover, at a minimum, will include: - Capital transfers; - Multi-year funding; - Appropriations; - Not-for-profit industry; - Goods and services in-kind; - Interaction between the proposed EDs and PBE IPSAS 19; and - Multi-party funding for community initiatives.	All stakeholders
	22 Sep	Accounting Technical reference group (TRG) meeting	Discuss ED proposals and raise key questions and other relevant feedback received so far. The discussion and questions will be tailored to each specific audience.	TRG members

Phase	Date	Activity	Key messages	Audience
	Oct	3+ lunchtime drop-in sessions		All stakeholders
	Oct–Nov	1–2 in-person or online roundtables for each audience group, including PS preparers, NFP preparers, auditors and users		NFP preparers
				PS preparers
				PBE auditors
				Users
	Jul–Nov	One-on-one meetings	Holding one-on-one meetings with interested stakeholders to solicit feedback.	All stakeholders

Question for the Board

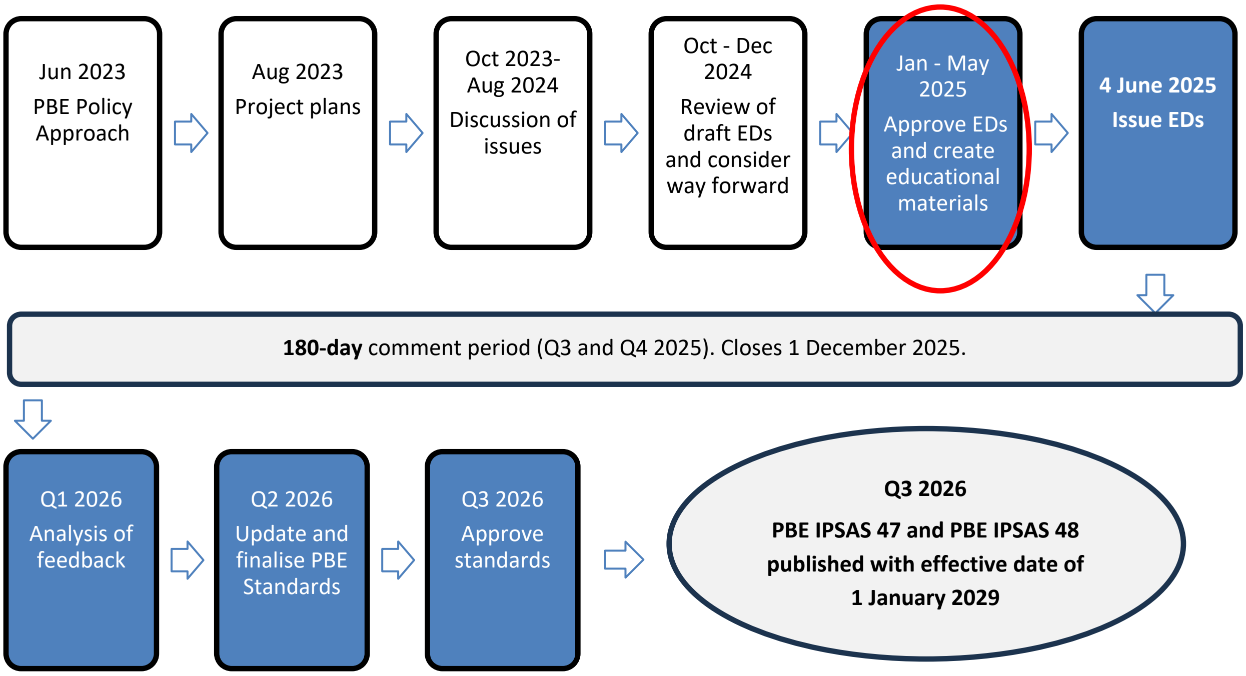
Does the Board have **FEEDBACK** on our proposed outreach plan, including the timing and nature of the educational material?

Next steps

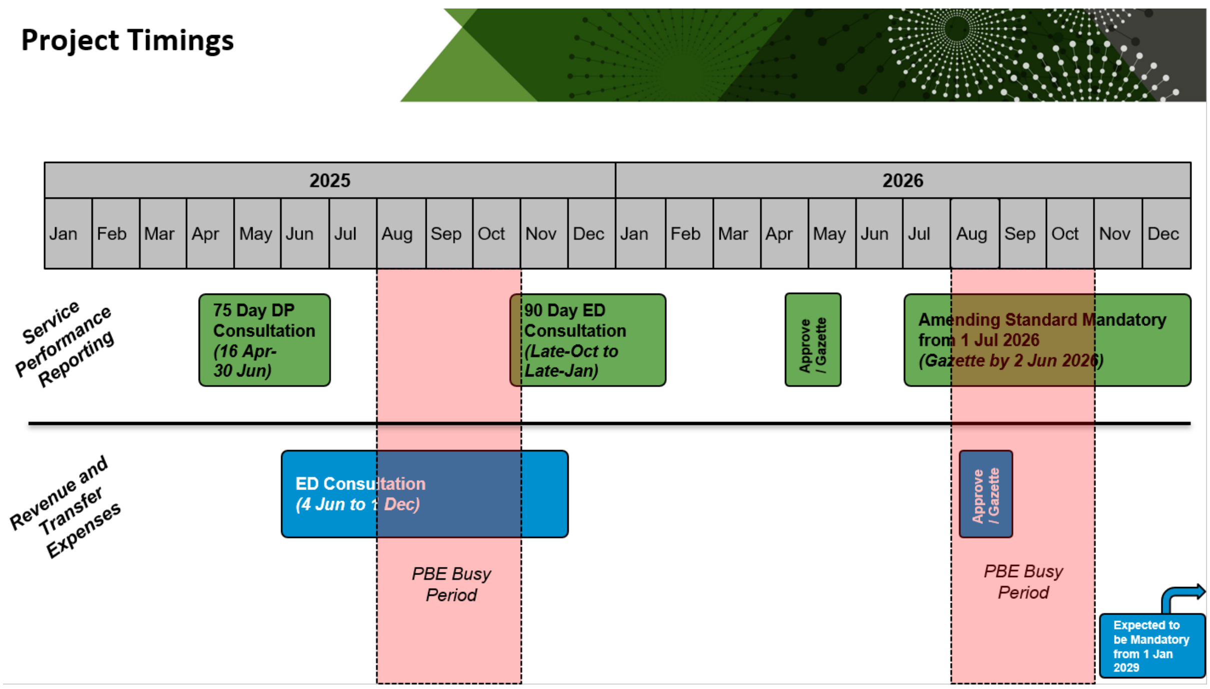
14. We will finalise the EDs and CPs for final formatting and quality checks. This process will involve collaboration with the communication team.

15. Additionally, we will continue to develop educational materials, the website, and other related actions or activities to ensure that all relevant content is finalised in accordance with the outreach plan outlined above.

Appendix 1: Timeline of future planned actions



Appendix 2: Intersection between SPI and PBE IPSAS 47 & PBE IPSAS 48 consultation



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed new accounting standard for revenue

Tier 1 and Tier 2 public benefit entities

Exposure Draft PBE IPSAS 47 *Revenue*

Submissions close [xx] 2025

June 2025

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2025-[xx]

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 47 REVENUE (PBE IPSAS 47)

Issue [Date]

This Tier 1 and Tier 2 [draft][1] PBE Standard has been issued as a result of a new International Public Sector Accounting Standard – IPSAS 47 *Revenue.*

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of Standard

This Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after its publication. The Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

This Standard has a mandatory date of 1 [January 2028], meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of this Standard to an earlier accounting period is permitted for accounting periods that end after the Standard takes effect – refer to paragraphs 194 - 194.3 of this Standard.

This Standard includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 public benefit entity accounting requirements in accordance with XRB A1 Application of the Accounting Standards Framework. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (*). However, an entity is required to comply with any RDR paragraphs associated with a disclosure concession that is adopted.

[1] References to "this Standard" or "PBE IPSAS 47" throughout this Exposure Draft should be read as referring to "this draft PBE Standard" or "draft PBE IPSAS 47".

ISBN

PBE IPSAS 47 REVENUE

CONTENTS

The following is available on the XRB website as additional material

Public Benefit Entity International Public Sector Accounting Standard 47 *Revenue* is set out in paragraphs 1–204 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 47 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 47, the IPSASB's Basis for Conclusions on IPSAS 47, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this 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 revenue transactions.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction, and all relevant facts and circumstances, to determine the type of revenue transaction; and

   (b) Sets out the accounting requirements to account for the revenue transaction.

Scope

2.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

2.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. **An entity that prepares and presents financial statements shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**

   (a) [Not used];

   (b) A public benefit entity combination within the scope of PBE IPSAS 40 *PBE Combinations*;

   (c) The accounting for contributions from owners;

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

   (e) Insurance contracts within the scope of PBE IFRS 17 *Insurance Contracts*;

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

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

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

2 As of the issuance date of [draft] PBE IPSAS 47, PBE IPSAS 13 Leases remains in effect for public sector public benefit entities and has not yet been superseded by PBE IPSAS 43 Leases. PBE IPSAS 13 also continues to apply to not-for-profit public benefit entities. Therefore, this [draft] Standard references PBE IPSAS 13 rather than PBE IPSAS 43.

(i) **Gains from the sale of non-financial assets that are not an output of an entity's activities and are within the scope of PBE IPSAS 16 *Investment Property*, PBE IPSAS 17 *Property, Plant, and Equipment,* or PBE IPSAS 31 *Intangible Assets* (see paragraph AG5);**

(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 PBE IPSAS 27 *Agriculture*); and**

(l) **The extraction of mineral resources.**

Definitions

4. **The following terms are used in this Standard with the meanings specified[3]:**

For the purposes of this Standard, a binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG10–AG31 provide additional guidance.)

A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement 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 satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

From the perspective of a resource recipient, a capital transfer is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)

A compliance obligation is an entity's promise in a binding arrangement to either use resources[4] internally for distinct goods or services[5] or transfer distinct goods or services to a purchaser or third-party beneficiary.

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.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.

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[3] Revenue is defined in PBE IPSAS 1 paragraph 7 as *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*.

[4] In this Standard, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets.

[5] In this Standard, references to goods and services, or goods or services are to be read as incorporating references to cash and non-current assets.

Other compulsory contributions and levies is cash or another asset, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programmes.

A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. (Paragraph AG27 provides additional guidance.)

A resource provider is the party that provides a resource to the entity. (Paragraphs AG26–AG31 provides additional guidance.)

The stand-alone value (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

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 the entity, 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.

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources. (Paragraph AG29 provides additional guidance.)

For the purposes of this Standard, the transaction consideration is the amount of resources to which an entity expects to be entitled.

A transfer is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

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

Revenue

5. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, 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 organisation or other third parties are not considered revenue of the agent, 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.

6. Where an entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognised as a cost of the transaction. For example, if an entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (resource provider), those costs are recognised separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognised in accordance with PBE IPSAS 17.

Taxes

7. 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 4 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 benefit entities, such as donations and the payment of fees, are not taxes, although they may be the result of transactions without a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

8. 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.

Identify the Revenue Transaction

9. For public benefit entities revenues may arise from transactions without binding arrangements or with binding arrangements.

10. **At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement**.

Identify whether a Binding Arrangement Exists

11. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of their obligations**.

12. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

13. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable.

14. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of the resource provider or the nature of the entity's promise in the binding arrangement).

15. An entity will apply the recognition and measurement criteria in this Standard as follows:

    (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 18–55, with guidance specific to taxes in paragraphs 36–55; and

    (b) Revenue from transactions with binding arrangements are accounted for by applying paragraphs 56–147.

16. Paragraphs AG10–AG31 provide additional guidance on enforceability and binding arrangements.

Revenue from Transactions without Binding Arrangements

Recognition

17. **An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:**

    (a) Any of its rights in its revenue transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 18–25; and

    (b) Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 26–27.

Analysis of the Initial Inflow of Resources

18. An entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. The entity recognises this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably.[6] Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in achieving its service delivery or other objectives. A past event that gives the entity control of a resource 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 – 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.

19. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity'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 AG143, entities may, but are not required to, recognise services in-kind.

20. Each type of inflow of resources is analysed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised 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 entity may recognise as a liability until the obligations are satisfied (in accordance with paragraph 26).

Right to an Inflow of Resources

21. When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a

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[6] 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, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

resource that meets the definition of an asset and is to be recognised as an asset. The entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the resource provider's ability and intention to provide the resources.

22. An announcement of an intention to transfer resources to a public benefit entity is not of itself sufficient to identify resources as controlled by an entity.[7]

23. In circumstances where an agreement is required before resources can be transferred, an entity will not identify the resources as controlled until such time as the entity's right in the agreement is enforceable, because the entity cannot exclude or regulate the access of the resource provider to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognise an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the resource provider's access to those resources.

Contingent Assets

24. 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 PBE IPSAS 19).

Subsequent Consideration of Asset Recognition Criteria

25. An entity shall continue to assess the revenue transaction, and any inflow of resources received or to be received, to determine whether the criteria for asset recognition in paragraph 21 are subsequently met.

Existence and Recognition of a Liability

26. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

27. For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s).

28. An obligation that meets the definition of a liability shall be recognised as a liability when, and only when, the amount of the obligation can be measured reliably.

Recognition of Revenue Transactions without Binding Arrangements

29. **When an entity recognises an inflow or right to an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 18–25, it recognises revenue based on the nature of the requirements in its revenue transaction. An entity shall recognise revenue from a transaction without a binding arrangement:**

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[7] For example, if a public school were destroyed by a fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognise an inflow of resources (resources receivable) at the time of the announcement.

(a) **When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or**

(b) **Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.**

Measurement

Measurement of Assets from an Inflow of Resources

30. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its fair value, in accordance with the relevant PBE Standard.**

31. After initial recognition, an entity shall subsequently measure:

(a) A receivable asset:

(i) Within the scope of PBE IPSAS 41 as a financial asset in accordance with PBE IPSAS 41; or

(ii) Not within the scope of PBE IPSAS 41 on the same basis as a financial asset in accordance with PBE IPSAS 41, by analogy.

(b) All other assets as prescribed by the applicable PBE Standard.

Measurement of Liabilities

32. **The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised.**

33. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability shall 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 PBE IPSAS 19.

Measurement of Revenue Transactions without Binding Arrangements

34. **Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognised by the entity.**

35. When, as a result of a revenue transaction without a binding arrangement, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph 30, subject to any liability recognised in accordance with paragraphs 26–28.

Taxes

36. **An entity shall recognise 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.**

37. 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.

38. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of past events (taxable events) 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 they are presently controlled by the entity as a result of past events and their value can be measured reliably. The entity should consider evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

39. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the central 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 central government imposes a sales tax, the entire proceeds of which it passes to local governments, based on a continuing appropriation, the central government recognises assets and revenue for the tax, and a decrease in assets and an expense for the transfer to local ~~state~~ governments. The local governments will recognise 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 taxation agency collects income taxes for the central government and local governments, it does not recognise revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognise assets and revenue in respect of the taxes.

40. 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.

41. Taxes are a transaction without a binding arrangement 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.

Triggering Event for Taxes and Other Compulsory Contributions and Levies

42. Similar types of taxes are levied in many jurisdictions. The entity analyses the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied.

43. Similar types of other compulsory contributions and levies occur in many jurisdictions. The entity analyses 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 and Other Compulsory Contributions and Levies

44. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 36, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the triggering event for other compulsory contributions and levies are recognised as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity'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, notwithstanding that the entity 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 recognised until the triggering event for other compulsory contributions and levies occurs. When the triggering event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognised.

Measurement of Assets Arising from Taxation Transactions

45. Assets arising from taxation transactions are measured in accordance with paragraph 30. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). 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.

46. 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.

47. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised 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 PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

48. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event has occurred. This may occur if a tax base is volatile and a reliable estimation is not possible. In many cases, the assets and revenue may be recognised 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 the recognition of an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a deceased individual's large 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

49. 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 recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

50. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised 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 judgement or actions of third parties.

(b) The uncertainty about the amount of consideration 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 entity's experience (or other evidence) with similar types of 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 arrangements in similar circumstances.

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

Expenses Paid Through the Tax System and Tax Expenditures

51. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

52. 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, by 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 recognised separately in the statement of comprehensive revenue and expenses. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

53. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

54. In most jurisdictions, governments use the tax system to encourage certain financial behaviour and discourage other behaviour. 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.

55. 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 entities irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. PBE 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.

Revenue from Transactions with Binding Arrangements

Recognition

Accounting for the Binding Arrangement

56. **An entity shall account for a binding arrangement using the binding arrangement accounting model if 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 under the binding arrangement;**

    (c) **The entity can identify the payment terms for the satisfaction of each identified compliance obligation;**

    (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 AG32–AG34 provide additional guidance for binding arrangements that require a transfer of distinct goods or services to a purchaser or third-party beneficiary); and**

    (e) **It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement (paragraphs**

AG35–AG39 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the resource provider'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 transaction consideration stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 115).

57. If a binding arrangement meets the criteria in paragraph 56 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 resource provider'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 for the satisfaction of any remaining compliance obligations in the binding arrangement.

58. When a binding arrangement does not meet all of the criteria in paragraph 56, the entity shall recognise any consideration received as revenue only when either of the following events has occurred:

   (a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or

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

   An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 56 are subsequently met.

59. For the purpose of applying this Standard, an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties).

60. A binding arrangement is wholly unsatisfied if both of the following criteria are met:

   (a) The entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and

   (b) The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the entity for the entity satisfying any of its compliance obligations in the binding arrangement.

61. If an entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the binding arrangement accounting model, the entity shall also consider whether it should be combined with other binding arrangements, and whether there are any modifications to its binding arrangement.

Combination of Binding Arrangements

62. An entity shall combine two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the resource provider) 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 consideration or performance of the other binding arrangement; or

(c) The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 68–77.

Modifications to a Binding Arrangement

63. A modification to a binding arrangement is a change in the scope or consideration (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 Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

64. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or consideration (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 consideration. 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 consideration, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 113–117 on estimating variable consideration and paragraphs 119–121 on constraining estimates of variable consideration.

65. 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 promises that are distinct (in accordance with paragraphs 73–77); and

(b) The consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone values of the additional promises and any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone value of an additional good or service for a discount that the resource provider 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 resource provider.

66. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) 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 promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph 68(b)) is the sum of:

(i) The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognised 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 promises are not distinct and, therefore, form part of a single compliance 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 entity's measure of progress towards complete satisfaction of the compliance obligation, is recognised 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 promises 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) compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Duration of a Binding Arrangement

67. Some binding arrangements 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 Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

Identifying Compliance Obligations in a Binding Arrangement

68. **At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) 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 in characteristics and risks and that have the same pattern of use internally or transfer to the purchaser or third-party beneficiary (see paragraph 70).

Paragraphs AG43–AG56 provide additional guidance on identifying compliance obligations.

69. **A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid.**

70. A series of distinct goods or services has the same pattern of use internally or 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 would meet the criteria in paragraph 92 or 95 to be a compliance obligation satisfied over time; and

(b) In accordance with paragraphs 98–99, the same method would be used to measure the entity's progress towards complete satisfaction of the compliance obligation.

Promises to Use Resources

71. A binding arrangement generally explicitly states the goods or services that an entity promises to either obtain for use internally or transfer to a purchaser or third-party beneficiary. However, the compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement 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 resource provider that the entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.

72. Compliance obligations do not include activities that an entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

Identifying Distinct Promises to Use Resources

73. A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised in a binding arrangement is distinct if both of the following criteria are met:

(a) The party receiving the good or service 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 that party (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resource internally for the good or service or 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 is distinct within the context of the binding arrangement).

See paragraphs AG53–AG56 for specific guidance on identifying distinct promises to use resources for another party.

74. An entity determines if the party receiving the good or service is itself, resource provider (purchaser), or a specified third-party beneficiary by considering the nature of its compliance obligation.

(a) In a compliance obligation where an entity promises to use resources internally for a distinct good or service, the entity itself is the recipient of the goods or services.

(b) In a compliance obligation where an entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.

See paragraph AG27 for additional guidance.

75. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph 73(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 party may be able to generate economic benefits or service potential from the good or service on its own. For other goods or services, a party may be able to generate 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 party has already obtained from the entity (including goods or services that the entity will use internally or that will be 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 party can generate 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 internally uses or provides a good or service separately would indicate that a party can generate economic benefits or service potential from the good or service on its own or with other readily available resources.

76. In assessing whether an entity's promises to use resources internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 73(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises 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 resource provider 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 resource 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 customises, or are significantly modified or customised 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 satisfy its promise by using each of the goods or services internally, or transferring each of the goods or services, independently.

77. 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 of the goods or services promised in a binding arrangement as a single compliance obligation.

Initial Recognition of Revenue Transactions with a Binding Arrangement

78. When a binding arrangement is wholly unsatisfied in accordance with paragraph 60, an entity shall not recognise any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

79. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with PBE IPSAS 19. Paragraphs AG57–AG58 provide additional guidance on unsatisfied binding arrangements.

Analysis of the Initial Inflow of Resources

80. An entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should apply paragraphs 18–25, and recognise an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met.

Existence and Recognition of a Liability

81. Public benefit entities typically receive resources from governments or other entities. When an entity recognises an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.

82. A compliance obligation gives rise to a liability when:

    (a) The entity has received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and

    (b) The resource provider can enforce the binding arrangement, if the entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.

    See additional guidance in paragraphs AG59–AG62.

83. In accordance with paragraph 27, a liability exists if the entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. An entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the entity's non-compliance (i.e., not satisfying its compliance obligation(s)).

84. As an administrative convenience, a transfer of resources as a consequence of the entity not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The entity will still recognise the gross amounts in its financial statements: that is, the entity will recognise 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.

85. If an entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

86. A compliance obligation that meets the definition of a liability shall be recognised as a liability when, and only when the amount of the obligation can be measured reliably. The entity shall continue to recognise the liability until one of the events in paragraph 58 is subsequently met.

Recognition of Revenue Transactions with a Binding Arrangement

87. **When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset in accordance with paragraphs 18–25, the entity shall recognise:**

    (a) Revenue for any satisfied compliance obligations in respect of the same inflow; and

    (b) A liability for any unsatisfied compliance obligations in respect of the same inflow.

88. **The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognise revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement. The entity shall reduce the carrying amount of any liability that was recognised in accordance with paragraphs 81–86 by an equal amount. Paragraphs AG63–AG95 provide additional guidance on the satisfaction of compliance obligations.**

89. **An entity satisfies a compliance obligation by using resources internally for a promised good or service (i.e., an asset), or to transfer a promised good or service to a purchaser or third-party beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.**

90. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, a resource (see paragraph 18). The economic benefits or service potential embodied in a resource are the potential cash flows (inflows or savings in outflows), or the capability 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 resource to provide internal training;

    (b) Using the resource to produce goods or provide services (including public services);

    (c) Using the resource to enhance the value of other assets;

    (d) Using the resource to settle liabilities or reduce expenses;

    (e) Selling or exchanging the resource;

    (f) Pledging the resource to secure a loan; and

    (g) Holding the resource.

91. For each compliance obligation identified in accordance with paragraphs 68–77, an entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time (in accordance with paragraphs 92–93 or paragraphs 95–96) or satisfies the compliance obligation at a point in time (in accordance with paragraph 94 or paragraph 97). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Use Resources for Goods or Services Internally

Satisfied Over Time

92. An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognises revenue over time, if one of the following criteria is met:

    (a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

    (b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

    (c) The entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

93. 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 consideration for any compliance obligation completed to date in accordance with paragraph 92(c). The right to consideration for any compliance obligation 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 any compliance obligation completed to date if the binding arrangement is terminated by the resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised. Paragraphs AG67–AG71 provide guidance for assessing the existence and enforceability of a right to consideration and whether an entity's right to consideration would entitle the entity to be paid for any compliance obligation completed to date.

Satisfied at a Point in Time

94. If a compliance obligation is not satisfied over time in accordance with paragraphs 92–93, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which the entity obtains control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90.

Compliance Obligations to Transfer Goods or Services to Another Party (Purchaser or Third-Party Beneficiary)

Satisfied Over Time

95. An entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognises 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 AG73–AG74);

    (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 AG75); or

    (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 96) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

96. 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 compliance obligation. Paragraphs AG76–AG78 provide guidance for assessing whether an asset has an alternative use to an entity.

Satisfied at a Point in Time

97. If a compliance obligation is not satisfied over time in accordance with paragraphs 95–96, an entity satisfies the compliance 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 compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90 (and AG183–AG185 if the entity has a repurchase

agreement). 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 consideration for the asset — if a resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider 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 resource provider'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 resource provider 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 resource provider 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 resource provider controls. Paragraphs AG183–AG196, AG197–AG198, and AG199–AG202 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 resource provider 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 compliance obligation in addition to the compliance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a resource provider but not yet satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.

(e) The resource provider has accepted the asset — the resource provider'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 AG82–AG85.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

98. For each compliance obligation satisfied over time in accordance with paragraphs 92–93 (for compliance obligations to use goods or services internally) or paragraphs 95–96 (for compliance obligations to transfer goods or services to another party), an entity shall recognise revenue over time by measuring the progress

towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict an entity's performance to satisfy its compliance obligation.

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

Methods for Measuring Progress

100. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG86–AG95 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.

101. When applying a method for measuring progress for a specific compliance obligation, an entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation:

(a) For a compliance obligation where the entity promises to use resources internally for a distinct good or service, the entity shall exclude from the measure of progress any goods or services for which the entity does not retain control. Conversely, an entity shall include in the measure of progress any goods or services for which the entity retains control when satisfying that compliance obligation; and

(b) For a compliance obligation where the entity promises to use resources to transfer a distinct good or service to another party, the entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to another party (i.e., 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 another party (i.e., a purchaser or third-party beneficiary) when satisfying that compliance obligation.

102. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with PBE IPSAS 3.

Reasonable Measures of Progress

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

104. 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 compliance obligation, but the entity expects to recover the costs incurred in satisfying the compliance obligation. In those circumstances, the entity shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the compliance obligation.

Subsequent Consideration of Asset Recognition Criteria

105. When an inflow of resources from a binding arrangement within the scope of this Standard does not meet the criteria in paragraph 18, and an entity subsequently receives an inflow of resources from the resource provider, the entity shall recognise the inflow received as revenue only when either of the following events has occurred:

(a) The entity has no unsatisfied compliance obligation; or

(b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

Measurement of Assets from an Inflow of Resources

106. **An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied (see paragraphs 109–132). An entity shall subsequently measure the asset in accordance with paragraph 31.**

Measurement of Liabilities

107. The amount recognised as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised for the inflow of resources. An entity shall apply paragraph 33 in determining its best estimate of the liability.

Measurement of Revenue Transactions with Binding Arrangements

108. **When (or as) a compliance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 119–121) that is allocated to that compliance obligation.**

Determining the Transaction Consideration

109. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

110. Credit risk is not considered when determining the amount the entity expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in PBE IPSAS 41.

111. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:

(a) Variable consideration (see paragraphs 113–117 and 122);

(b) Constraining estimates of variable consideration (see paragraphs 119–121);

(c) The existence of a significant financing component in the binding arrangement (see paragraphs 123–128);

(d) Non-cash consideration (see paragraphs 129–132); and

(e) Consideration payable to a resource provider (see paragraphs AG104–AG106).

112. For the purpose of determining the transaction consideration, an entity shall assume that the consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

113. If the consideration in the binding arrangement includes a variable amount, an entity shall estimate the amount of the consideration to which the entity expects to collect from the resource provider.

114. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The 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 a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.

115. The variability relating to the consideration may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the consideration is variable if either of the following circumstances exists:

(a) The resource provider 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 amount stated in the binding arrangement or applicable legislation. That is, it is expected that the entity will offer or accept a reduced amount due to a concession. Depending on the jurisdiction, sector or resource provider, this offer may be referred to as a discount, rebate, refund or credit; or

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

Paragraph AG37 provides additional guidance on implicit price concessions.

116. 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 expects to be entitled to:

(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; or

(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 completes construction of infrastructure on schedule or not).

117. An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration to which the entity expects to 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 to estimate the amount receivable. In cases where the binding arrangement requires the entity to transfer distinct goods or services to another party, the information 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

118. An entity may enter into a binding arrangement which includes a right of return. In these cases, the entity shall recognise a refund liability if the entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. 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 consideration). The refund liability (and corresponding change in the transaction consideration 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 AG96–AG103.

Constraining Estimates of Variable Consideration

119. An entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 116 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

120. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised 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 judgement or actions of third parties, weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or 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. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(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.

121. An entity shall apply paragraphs AG180–AG182 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

122. At the end of each reporting period, an entity shall update the estimated transaction consideration (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 entity shall account for changes in the transaction consideration in accordance with paragraphs 144–147.

The Existence of a Significant Financing Component in the Binding Arrangement

123. In determining the transaction consideration, an entity shall adjust the amount of consideration 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 resource provider or the entity 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 binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations.

124. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the entity uses them (internally) or transfers them (to the purchaser or third-party beneficiary). 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 in the compliance obligation; and

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

(i) The expected length of time between when the entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and

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

125. Notwithstanding the assessment in paragraph 124, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:

(a) The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.

(b) A substantial amount of the inflow promised by the resource 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 resource provider or the entity.

(c) The difference between the consideration and the cash price of the transfer (as described in paragraph 124) arises for reasons other than the provision of finance to either the resource provider or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the terms might provide the entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

126. As a practical expedient, an entity need not adjust the 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 satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.

127. To meet the objective in paragraph 124 when adjusting the 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 resource provider 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 resource provider 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 consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). 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 resource provider's credit risk).

128. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of comprehensive revenue and expenses. Interest revenue or interest expense is recognised only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognised in accounting for a binding arrangement.

Non-Cash Consideration

129. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its fair value, in accordance with the relevant PBE Standard, as at the time when the criteria for asset recognition are satisfied.

130. 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 value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.

131. 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 resource provider varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 119–121.

132. If a resource provider contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's satisfaction 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 resource provider.

Allocating the Transaction Consideration to Compliance Obligations

133. **The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.**

134. To meet the allocation objective, an entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis in accordance with paragraphs 136–140, except as specified in paragraphs AG107–AG109 (for allocating discounts) and

paragraphs 141–143 (for allocating consideration that includes variable amounts). The amount of revenue recognised shall be a proportionate amount of the resource inflow recognised as an asset, based on the estimated percentage of the total compliance obligations satisfied.

135. Paragraphs 136–143 do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 141–143 may apply if an entity promises to use or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph 68(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values

136. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, an entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.

137. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party. The best evidence of a stand-alone value is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar resource providers. 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 value of that good or service.

138. If a stand-alone value is not directly observable, an entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 133. When estimating a stand-alone value, an entity shall consider all information (including entity-specific factors, information about the resource provider or class of resource provider, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximise the use of observable inputs and apply estimation methods consistently in similar circumstances.

139. Suitable methods for estimating the stand-alone value 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 uses or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, or 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 compliance obligation and, if applicable, add an appropriate margin for that good or service.

(c) Residual approach—an entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be used or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 138, the stand-alone value of a good or service only if one of the following criteria is met:

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

(ii) The entity has not yet determined 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).

140. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be used or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone values. For example, an entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective in paragraph 133 and the requirements for estimating stand-alone values in paragraph 138.

Allocation of Variable Consideration

141. 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, compliance obligations in the binding arrangement (for example, a bonus may be contingent on an entity using or transferring a promised good or service within a specified period of time); or

    (b) One or more, but not all, distinct goods or services in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph 68(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).

142. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation in accordance with paragraph 68(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 compliance obligation or use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or using or transferring the distinct good or service); and

    (b) Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective in paragraph 133 when considering all of the compliance obligations and payment terms in the binding arrangement.

143. The allocation requirements in paragraphs 133–140 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 142.

Changes in the Transaction Consideration

144. 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 to which an entity expects to be entitled for satisfying its compliance obligation.

145. An entity shall allocate to the compliance 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, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.

146. An entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation in accordance with paragraph 68(b) only if the criteria in paragraph 142 on allocating variable consideration are met.

147. An entity 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 63–66. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 144–146 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

(a) An entity shall allocate the change in the transaction consideration to the compliance 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 66(a).

(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall allocate the change in the transaction consideration to the compliance obligations in the modified binding arrangement (i.e., the compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Other Assets from Revenue Transactions with Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

148. **An entity shall recognise as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.**

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

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

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

Costs to Fulfil a Binding Arrangement

152. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, PBE IPSAS 12 *Inventories*, PBE IPSAS 31, or PBE IPSAS 17), an entity shall recognise an asset from the costs incurred to fulfil 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) compliance obligations in the future; and**

(c) **The costs are expected to be recovered.**

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

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

(a) Direct labour (for example, salaries and wages of employees who provide the promised services directly to a 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 resource provider 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).

155. An entity shall recognise the following costs as expenses when incurred:

(a) General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 154);

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

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

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

Amortisation and Impairment

156. An asset recognised in accordance with paragraph 148 or 152 shall be amortised on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 152(a)).

157. An entity shall update the amortisation to reflect a significant change in the entity's expected timing of the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with PBE IPSAS 3.

158. An entity shall recognise an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognised in accordance with paragraph 148 or 152 exceeds:

(a) The remaining amount of consideration that the entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less

(b) The costs that relate directly to satisfying the compliance obligations and that have not been recognised as expenses (see paragraph 154).

159. For the purposes of applying paragraph 158 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction consideration (except for the requirements in paragraphs 119–121 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

160. Before an entity recognises an impairment loss for an asset recognised in accordance with paragraph 148 or 152, the entity shall recognise any impairment loss for assets related to the binding arrangement that are recognised in accordance with another Standard (for example, PBE IPSAS 12, PBE IPSAS 31, and PBE IPSAS 17). After applying the impairment test in paragraph 158, an entity shall include the resulting carrying amount of the asset recognised in accordance with paragraph 148 or 152 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying PBE IPSAS 26 *Impairment of Cash-Generating Assets* to that cash-generating unit.

161. An entity shall recognise in surplus or deficit a reversal of some or all of an impairment loss previously recognised in accordance with paragraph 158 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 amortisation) if no impairment loss had been recognised previously.

Presentation

162. 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 resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.

163. If a resource provider transfers cash or another asset, or an entity has a right to consideration that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.

164. If an entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration 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 for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time. An entity shall assess a binding arrangement asset for impairment in accordance with PBE IPSAS 41. 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 PBE IPSAS 41 (see also paragraph 177(b)).

165. 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 consideration is due. For example, an entity would recognise a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 31, an entity shall subsequently measure a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable, any difference between the measurement of the receivable

in accordance with PBE IPSAS 41 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).

166. This 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

167. **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 revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

   (a) Its revenues from transactions without binding arrangements (see paragraphs 172–176);

   (b) Its revenues from transactions with binding arrangements (see paragraphs 177–187);

   (c) The significant judgements, and changes in the judgements, made in applying this Standard to those binding arrangements (see paragraphs 188–190); and

   (d) Any assets recognised from the costs to obtain or fulfil a binding arrangement with a resource provider in accordance with paragraph 148 or 152 (see paragraphs 191–192).

168. 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 immaterial detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.

169. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

   (a) The amount of revenue from transactions recognised during the period, showing separately, and by major classes:

      (i) Taxes;

      (ii) Other compulsory contributions and levies;

      (iii) Transfers; and

      (iv) Compliance obligations in a binding arrangement.

   (b) The amount of receivables recognised at the reporting date in respect of revenue;

   (c) The amount of liabilities recognised at the reporting date in respect of transferred assets subject to compliance obligations;

   (d) The amount of liabilities recognised at the 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; and

   (f) The amount of any liabilities forgiven.

170. **An entity shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue;**

(b) **The judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue;**

(c) **For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured;**

(d) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity 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;**

(e) **The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and**

*(f) **Qualitative and quantitative information about services in-kind that have been recognised.**

171. A public benefit entity may have a revenue transaction where the entity is compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, constitutional authority, legally sanctioned process and policy decisions, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from taxes or fines without binding arrangements, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:

(a) A description of the legislation or policy decision which compels a party in the revenue transaction to satisfy its obligation to the entity in the revenue transaction;

(b) The amount of revenue from these transactions that was recognised after application of paragraphs 25 and 105 of this Standard, or the amount of revenue recognised after consideration of an implicit price concession from the application of paragraph 115;

(c) The amount from these transactions that was not recognised as revenue, as the collection of consideration was not probable in accordance with paragraph 119, or as the amount from these transactions that was not recognised as revenue as it was considered to be an implicit price concession from the application of paragraph 115; and

(d) If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 115, an entity shall disclose the following:

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

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

Specific Disclosure for Revenue without Binding Arrangements

172. As noted in paragraph 46, in many cases an entity 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 an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has or have elapsed since the taxable event or equivalent

event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.

173. Paragraph 169(e) requires an entity to disclose the existence of advance receipts. These liabilities carry the risk that the entity 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.

174. Paragraph 170(e) requires an entity to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received. These inflows of resources are received at the discretion of the resource provider, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly.

*175 Entities that do not recognise services 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 entity. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

176. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 175 strongly encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgements about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Specific Disclosure for Revenue with Binding Arrangements

177. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive revenue and expenses in accordance with other Standards:

(a) Revenue recognised from binding arrangements with compliance obligations, separately from its other sources of revenue; and

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

178. Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognised in respect of compliance obligations assists users in making judgements about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 169(c).

Disaggregation of Revenue

179. An entity shall disaggregate revenue recognised from binding arrangements 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 AG205–AG207 when selecting the categories to use to disaggregate revenue.

180. [Not used].

Binding Arrangement Balances

181. 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, if not otherwise separately presented or disclosed;

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

*(c) Revenue recognised in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).

*182. An entity shall explain how the timing of satisfaction of its compliance obligations (see paragraph 184(a)) relates to the typical timing of payment (see paragraph 184(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.

*183. An entity shall provide an explanation of the material 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:

(b) Changes due to PBE combinations;

(c) 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 consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

(d) Impairment of a binding arrangement asset;

(e) 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

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

Compliance Obligations

184. An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

(a) When the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance 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 119–121);

(c) The nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (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.

Transaction Consideration Allocated to the Remaining Compliance Obligations

*185. An entity shall disclose the following information about its remaining compliance obligations:

(f) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(g) An explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 185(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 compliance obligations; or

(ii) By using qualitative information.

*186. As a practical expedient, an entity need not disclose the information in paragraph 185 for a compliance obligation if either of the following conditions is met:

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

(i) The entity recognises revenue from the satisfaction of the compliance obligation in accordance with paragraph AG90.

*187. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 186 and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 185. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 119–121).

Significant Judgements in the Application of this Standard

Determining the Timing of Satisfaction of Compliance Obligations

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

(a) The methods used to recognise 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 use or transfer of goods or services.

189. For compliance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a compliance obligation is satisfied.

Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations

*190. An entity 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;

(c) Allocating the transaction consideration, including estimating stand-alone values 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 Recognised from the Costs to Obtain or Fulfil a Binding Arrangement with a Resource Provider

191. An entity shall describe both of the following:

*(a) The judgements made in determining the amount of the costs incurred to obtain or fulfil a binding arrangement with a resource provider (in accordance with paragraph 148 or 152); and

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

192. An entity shall disclose all of the following:

*(a) The closing balances of assets recognised from the costs incurred to obtain or fulfil a binding arrangement with a resource provider (in accordance with paragraph 148 or 152), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and

(b) The amount of amortisation and any impairment losses recognised in the reporting period.

RDR192.1 A Tier 2 entity is required to disclose the closing balances of assets recognised from the costs incurred to obtain or fulfil a binding arrangement with a resource provider (in accordance with paragraph 148 or 152).

Practical Expedients

193. If an entity elects to use the practical expedient in either paragraph 126 (about the existence of a significant financing component) or paragraph 151 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Commencement and Application

194. **An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 194.1–194.3. An entity that applies this Standard to an 'early adoption accounting period' shall disclose that fact in the notes.**

When the Standard takes effect (section 27 Financial Reporting Act 2013)

194.1 This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

194.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

194.3 In paragraph 194.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and

(b) For which the early adopter:

(i) First applies this Standard in preparing its financial report;

(ii) Applies PBE IPSAS 47 *Revenue* at the same time; and

(iii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means 1 January 2028.

195. [Not used].

Transition

196. For the purposes of the transition requirements in paragraphs 197–203:

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

(b) A completed binding arrangement is a binding arrangement for which:

(i) The entity has satisfied all of the conditions identified in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*; or

(ii) The entity has satisfied all of its promises identified in accordance with PBE IPSAS 9 *Revenue from Exchange Transactions* and PBE IPSAS 11 *Construction Contracts*.

197. An entity shall apply this Standard using one of the following two methods:

(a) To each prior reporting period presented in accordance with PBE IPSAS 3, as if this Standard had always been applied, subject to the expedients in paragraph 199; or

(b) As if this Standard has always been applied, with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs 201–203.

198. Notwithstanding the requirements of paragraph 33 of PBE IPSAS 3, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of PBE IPSAS 3 for the annual period immediately preceding the first annual period for which this Standard is applied (the "immediately preceding period") and only if the entity applies this Standard as if it had always been applied in accordance with paragraph 197(a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

199. An entity may use one or more of the following practical expedients when applying this Standard in accordance with paragraph 197(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 consideration 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 65–66. 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 compliance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognise that amount as revenue.

200. For any of the practical expedients in paragraph 199 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.

201. If an entity elects to apply this Standard in accordance with paragraph 197(b), the entity shall recognise the cumulative effect of initially applying this 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 Standard as if it had always applied 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).

202. An entity applying this Standard in accordance with paragraph 197(b) may also use the practical expedient described in paragraph 199(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 200.

203. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied in accordance with paragraph 197(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to PBE IPSAS 9, PBE IPSAS 11, and PBE IPSAS 23; and

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

Withdrawal of Other Standards

204. This Standard supersedes the following Standards:

(a) PBE IPSAS 9, issued in 2014;

(b) PBE IPSAS 11, issued in 2014; and

(c) PBE IPSAS 23, issued in 2014.

PBE IPSAS 9, PBE IPSAS 11, and PBE IPSAS 23 remain applicable until PBE IPSAS 47 is applied (refer to paragraph 194).

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 47.

AG1. This Application Guidance is organised into the following categories:

(a) Scope (paragraphs AG2–AG9);

(b) Definitions (paragraphs AG10–AG12);

(c) Identify the Revenue Transaction (paragraphs AG13–AG31);

(i) Enforceability (paragraphs AG14–AG25);

(ii) Parties in an Arrangement (paragraphs AG26–AG31);

(d) Revenue from Transaction with Binding Arrangements (paragraphs AG32–AG138);

(i) Criteria for the Binding Arrangement Accounting Model (paragraphs AG32–AG39);

(ii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG40–AG42);

(iii) Identifying Compliance Obligations in a Binding Arrangement (paragraphs AG43–AG56);

(iv) Initial Recognition of Revenue (paragraphs AG57–AG58);

(v) Existence and Recognition of a Liability (paragraphs AG59–AG62);

(vi) Satisfaction of Compliance Obligations (paragraphs AG63–AG81);

(vii) Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraphs AG82–AG85);

(viii) Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs AG86–AG95);

(ix) Right of Return for a Transfer of Goods or Services to Another Party (paragraphs AG96–AG103);

(x) Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs AG104–AG106);

(xi) Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraphs AG107–AG109);

(xii) Determination of the Stand-Alone Value (paragraph AG110);

(xiii) Warranties for Goods or Services Transferred to Another Party (paragraphs AG111–AG116);

(xiv) Principal Versus Agent Considerations (paragraphs AG117–AG125);

(xv) Resource Provider Options for Additional Goods or Services (paragraphs AG126–AG130);

(xvi) Resource Providers' Unexercised Rights (paragraphs AG131–AG134);

(xvii) Non-Refundable Upfront Fees (and Some Related Costs) for a Transfer of Goods or Services to Another Party (paragraphs AG135–AG138);

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

(i) Capital Transfers (paragraphs AG140–AG142);

(ii) Services In-Kind (paragraphs AG143–AG149);

(iii) Pledges (paragraph AG150);

(iv) Advance Receipts of Transfers (paragraph AG151);

(v) Concessionary Loans (paragraphs AG152–AG153);

(vi) Measurement of Transferred Assets (paragraph AG154);

(vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG155–AG158);

(viii) Fines (paragraphs AG159–AG160);

(ix) Bequests (paragraphs AG161–AG163);

(x) Gifts and Donations, including Goods In-Kind (paragraphs AG164–AG167);

(xi) Licensing (paragraphs AG168–AG182);

(xii) Repurchase Agreements (paragraphs AG183–AG196);

(xiii) Consignment Arrangements (paragraphs AG197–AG198);

(xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202); and

(f) Disclosure (paragraphs AG203–AG207);

(i) Disclosure of Disaggregated Revenue (paragraphs AG205–AG207).

Scope (paragraph 3)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without binding arrangements or with binding arrangements. The definitions in paragraph 4 establish the key elements in applying the scope of the Standard.

AG3. While taxation is the major source of revenue for many governments, other public benefit entities rely on transfers (sometimes known as grants) and other sources of funding. Examples of these revenues include, but are not limited to:

(a) Taxes;

(b) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received; and

(c) Capital transfers.

AG4. This Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard (see paragraphs 148–161). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this Standard.

Scope Exclusions

AG5. Gains from the sale of non-financial assets within the scope of PBE IPSAS 16 *Investment Property*, PBE IPSAS 31 *Intangible Assets*, or PBE IPSAS 17, *Property, Plant, and Equipment*, that are not an output of an entity's activities are not considered revenue. However, the recognition and measurement principles within this Standard may be applied to account for the disposals of such assets.

AG6. This Standard does not apply to public benefit entity combinations. A public benefit entity 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 of the assets and liabilities of another operation or entity. Public benefit entity combinations are accounted for in accordance with PBE IPSAS 40 *PBE Combinations*.

AG7. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Contributions from owners are defined in PBE IPSAS 1 *Presentation of Financial Reports*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition, and to consider the substance rather than the form of the transaction. 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.

AG8. Agreements that (a) 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) 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.

AG9. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognises 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 entity will pay fixed distributions to the resource provider, with a return of the resource 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 PBE IPSAS 28 *Financial Instruments: Presentation*, when distinguishing liabilities from contributions from owners.

Definitions (paragraphs 4–8)

Binding Arrangement

AG10. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.

AG11. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance 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.

AG12. 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.

Identify the Revenue Transaction (paragraphs 9–15)

AG13. An entity shall consider the terms of its revenue transaction and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to arrangements with similar characteristics and in similar circumstances.

Enforceability

AG14. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG16. An arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:

(a) Clearly specified rights and obligations for each involved party; and

(b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.

AG17. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their obligation(s) in the arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG18. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG19. 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 satisfy the stated obligations in the arrangement.

AG20. 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 satisfy the stated obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfil the promises established within the arrangement or to seek redress should these promises not be satisfied.

AG21. 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 Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of obligations by an entity, this may result in a valid enforcement mechanism.

AG22. An entity may feel compelled to deliver on the obligations in an 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 Standard because there is no obligation on the resource provider to provide such funding. However, if the entity 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 the future funding if other arrangements are breached, then the reduction in future funding could be considered a valid enforcement mechanism.

AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider's ability to reduce future funding and its past history of doing so.

AG24. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and an entity (resource recipient).

AG25. In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with a resource provider indicates that the resource provider 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 may indicate that such terms do not in substance hold the other entity accountable and the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable for enforcing the rights and satisfying the obligations they agreed to in the arrangement.

Parties in an Arrangement

AG26. Arrangements in the not-for-profit and public sector may include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. For transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the entity to:

(a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return;

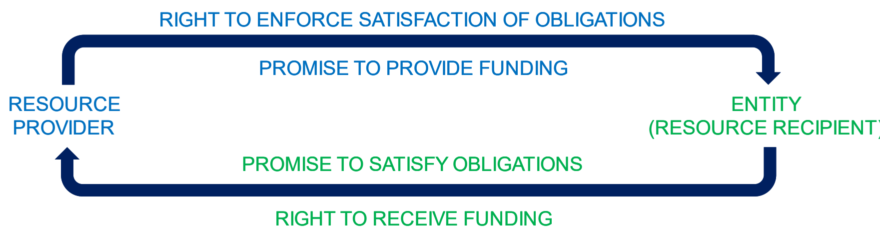
(b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser[8], as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or

(c) Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the entity to deliver goods or services to a third-party beneficiary. For example, if a central government provides funding to a local health department to conduct bone density screening for citizens over the age of 55, the central government is the resource provider and the citizens are the third-party beneficiaries. The resource provider can enforce delivery of those goods or services or seek recourse from the entity if the promises in the binding arrangement are not satisfied.

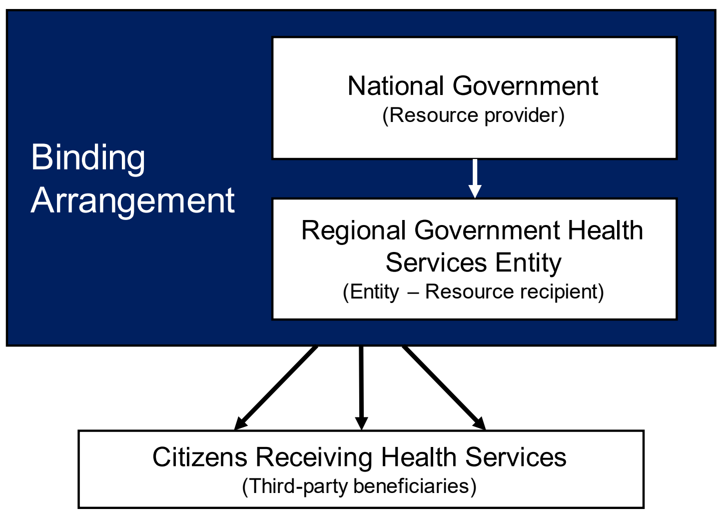
AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must

[8] A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. A customer is a type of purchaser.

be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG29. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the entity to deliver goods or services. However, for these multi-party arrangements to be within the scope of this Standard the resource provider must have the ability to force the entity to deliver distinct goods or services to the third-party beneficiaries. In these multi-party arrangements, the entity (resource recipient) is not an agent of the resource provider because the entity gains control of the consideration from the resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:



AG30. In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the resource provider's ability to compel the entity to satisfy its obligations.

AG31. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

Revenue from Transactions with Binding Arrangements

Criteria for the Binding Arrangement Accounting Model (paragraphs 56–61)

Economic Substance

AG32. An entity shall determine whether a transaction with a binding arrangement that requires a transfer of distinct goods or services to a purchaser or third-party beneficiary 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.

AG33. 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.

AG34. For the purposes of this Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 56(e)

AG35. An entity should apply judgement in considering the facts and circumstances upon entering into a binding arrangement to assess the resource provider's ability and intent at inception to pay the expected consideration at a future date.

AG36. An entity should assess collectability at the inception of the binding arrangement based on the entity's best estimate of the risks associated with the resource provider in the binding arrangement. This initial assessment may differ from actual consideration collected subsequently as a result of changes in conditions or expectations. Such changes would be reflected as either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception).

AG37. A price concession may be provided as part of the binding arrangement. A price concession is generally known by the parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the parties. This Standard typically measures revenue based on the transaction consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other 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 resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 109 and 115(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 56(e).

AG38. In some binding arrangements, entities are compelled by legislation to provide certain goods or 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.

AG39. When payment of the consideration, less any price concession, is not probable for delivering the good or service to certain groups of citizens, the criterion for identifying a binding arrangement in paragraph 56(e) is not met. In these circumstances, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraph 58 of this Standard.

Breach of Terms and Conditions of a Binding Arrangement

AG40. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

(a) Whether there are any incomplete compliance obligations remaining under the arrangement;

(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.

AG41. If the breach occurs in the current period and is identified before the authorisation of the financial statements for issue, the entity will recognise a liability for the amount to be refunded to the resource provider and derecognise any revenue recognised during the reporting period.

AG42. 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 PBE 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 PBE 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 authorised for issue or could reasonably be expected to have been obtained; or

(c) Separate past event because the amount recognised 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.

Identifying Compliance Obligations in a Binding Arrangement (paragraphs 68–77)

Promises to Use Resources

AG43. A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for a distinct good or service or transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary. The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged through the binding arrangement. The promise to use resources results in other resources (i.e., distinct goods or services that provide rights to economic benefits or service potential, or both) for either the reporting entity or another external party (either the purchaser or a third-party beneficiary. See paragraph AG49 for further guidance). The entity may also receive the benefit of the good or service but directs the use of the benefit to other parties.

AG44. This Standard requires an entity to appropriately identify any compliance obligations when it enters into a binding arrangement, and then recognise revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.

AG45. Identifying compliance obligations may require significant judgement. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:

(a) The nature or type of the promise to use resources;

(b) The cost or value of the distinct goods or services from the promise to use resources;

(c) The quantity of the distinct goods or services from the promise to use resources; and

(d) The period over which the use of resources occurs.

AG46. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. 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 is often an internally imposed measure of performance and not a compliance obligation.

Promises to Use Resources Internally

AG47. In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally for a distinct good or service to achieve specific service delivery objectives. Examples of resources provided to a public benefit entity in a binding arrangement may include:

(a) Transfers from central governments to local governments;

(b) [Not used];

(c) Transfers from governments to other public benefit entities, including not-for-profit entities;

(d) Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or local boards or authorities; and

(e) Transfers from donor agencies to governments or other public benefit entities (including not-for-profit entities).

AG48. A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts.

Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG49. In some instances, an entity's promise in a binding arrangement requires the entity to use resources to transfer a distinct good or service to an external party or parties (i.e., to the purchaser (resource provider) or a third-party beneficiary) identified in the binding arrangement, in compliance with the terms and conditions of the binding arrangement. In practice, an entity will consider whether it maintains control of the resources, or the resources are converted into a good and/or service and are required to be transferred to the resource provider or a third-party beneficiary. In this case, the resource provider is effectively a purchaser of distinct goods or services from the entity.

AG50. A key feature distinguishing an entity's promise to transfer a distinct good or service from other promises in the binding arrangement is the clear identification of an external party receiving the distinct goods or services.

A binding arrangement which imposes an obligation on an entity to transfer a distinct good or service to a specified external party (i.e., the purchaser or a specified third-party beneficiary) generally provides a clear indicator of specificity and transfer of control of the economic benefits and service potential of the resources from the entity to the external party.

AG51. Depending on the binding arrangement, goods or services promised in a compliance obligation may include, but are not limited to, the following:

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

(b) Purchase of goods by an entity and provided to citizens (for example, waste collection bins);

(c) Resale of rights to goods or services purchased by an entity (for example, an emission allowance resold by an entity acting as a principal, see paragraphs AG117–AG125);

(d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination programme 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 organised 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 AG117–AG125);

(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 agency building a recreational facility for a council);

(j) Granting licenses (see paragraphs AG168–AG182); and

(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG126–AG130)).

AG52. An entity earns and recognises revenue when it satisfies a compliance 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. Paragraph 18 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.

Identifying Distinct Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG53. Promises to use resources to transfer distinct goods or services to an external party generally have a greater degree of specificity. An entity is required to clearly identify such compliance obligations in order to complete a more objective analysis and precise account for the recognition and measurement of revenue from these transactions.

AG54. In cases where a binding arrangement includes a compliance obligation to transfer distinct goods or services to a purchaser or third-party beneficiary, a good or service promised is distinct if both of the following criteria are met (see paragraph 73):

(a) The promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential either on its own or together with other resources that are readily available to the party receiving the good or service (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resources to transfer a distinct 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).

AG55. In such binding arrangements, the promise to use resources to transfer distinct goods or services to the purchaser or a third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential when the entity's transfer of the good or service to the party receiving the goods or services contributes to the purchaser achieving its service delivery objectives.

AG56. Compliance obligations that require the transfer of promised goods or services to the purchaser or a third-party beneficiary are separately identifiable (i.e., distinct) from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that promise is satisfied. Therefore, it is possible to have several compliance obligations in one binding arrangement.

Initial Recognition of Revenue Transactions with a Binding Arrangement (paragraph 78)

AG57. In accordance with paragraph 78, when a binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. An entity's rights and obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined rights and obligations constitute a single asset or liability that is measured at zero. Individual rights and obligations are recognised as items (assets, liabilities, revenue and expenses depending on their nature) only when (or as) one or more parties to the binding arrangement satisfy their obligations.

AG58. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognise any asset, liability or revenue for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Existence and Recognition of a Liability (paragraphs 81–86)

AG59. An entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the entity to transfer resources as a result of past events.

A Present Obligation

AG60. A present obligation may be legally binding (i.e., through legal or equivalent means) or non-legally binding. A compliance obligation is a legally binding present obligation, in revenue transactions with binding arrangements, to use resources in compliance with the terms of the binding arrangement. All binding arrangements include at least one compliance obligation.

As a Result of Past Events

AG61. Public benefit entities may willingly enter into binding arrangements in order to deliver their service objectives and obtain assets from governments or other entities, or by purchasing or producing them. A liability may exist as a result of past events, specifically when:

(a) The entity enters into a binding arrangement with one or more parties; and

(b) The resource provider has provided promised resources before the entity satisfies the associated compliance obligation(s) (i.e., the entity has received a prepayment and the binding arrangement is partially satisfied).

Transactions or events expected to occur in the future do not in themselves give rise to compliance obligations.

A Transfer of Resources

AG62. The enforceability of a binding arrangement provides each party in the arrangement with the ability to hold the parties accountable to either satisfy their compliance obligations or face consequences if they do not satisfy their compliance obligations. When the entity has received resources after entering into a binding arrangement as a willing party, a liability exists if the consequence of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party (e.g., to the resource provider). Examples of consequences of non-compliance requiring a transfer of resources include, but are not limited to, repaying the resources to the resource provider or incurring some other form of penalty. Such a consequence requires a transfer of resources that the entity would not otherwise have had to transfer (i.e., incremental) had it not willingly entered into the binding arrangement and received resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events).

Satisfaction of Compliance Obligations (paragraphs 87–104)

Compliance Obligations to Use Resources for Goods or Services Internally

AG63. Paragraph 92 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

(c) The entity has an enforceable right to consideration for performance completed to date (see paragraphs AG67–AG71).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 92(a))

AG64. For some types of compliance obligations, the assessment of whether the entity receives the economic benefits or service potential provided by the 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 daily volunteer service) in which the receipt and simultaneous consumption of the economic benefits or service potential by the entity as it satisfies its compliance obligation can be readily identified.

AG65. For other types of compliance obligations, an entity may not be able to readily identify whether the entity simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance 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 satisfy the remaining compliance obligation. 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 compliance obligation to another entity; and

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

Entity Controls the Asset as it is Created or Enhanced (paragraph 92(b))

AG66. In determining whether the entity controls an asset as it is created or enhanced in accordance with paragraph 92(b), an entity shall apply the requirements for control in paragraphs 89–90, 94, and AG183-AG196. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Right to Consideration for Performance Completed to Date (paragraph 92(c))

AG67. In accordance with paragraphs 92(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its compliance obligations completed to date in the event that the resource provider 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 compliance obligations completed to date would be an amount that approximates the total cost of the goods or services used to date for no charge or for a nominal charge, or the price of the goods or services used to date (for example, recovery of the costs incurred by an entity in satisfying the compliance 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 satisfied 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 resource provider (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.

AG68. An entity's right to consideration for compliance obligations completed to date need not be a present unconditional right to consideration. In many cases, an entity will have an unconditional right to consideration only at an agreed-upon milestone or upon complete satisfaction of the compliance obligation. In assessing whether it has a right to consideration for compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain consideration for compliance obligations 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.

AG69. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to use resources internally for distinct goods or services in compliance with the binding arrangement and require the resource provider to pay the consideration promised in exchange for those satisfied compliance obligations. In those circumstances, an entity has a right to consideration for compliance obligations 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 resource provider to perform its obligations (which include paying the promised consideration).

AG70. In assessing the existence and enforceability of a right to consideration for compliance obligations 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 consideration for performance to date even though that right is not specified in the binding arrangement with the resource provider;

(b) Relevant legal precedent indicates that similar rights to consideration 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 consideration has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to consideration in similar binding arrangements, an entity would continue to have a right to consideration to date if, in the binding arrangement with the resource provider, its right to consideration for performance to date remains enforceable.

AG71. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to consideration for compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a resource provider, the payment schedule might not necessarily provide evidence of the entity's right to consideration for compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Compliance Obligations to Transfer Goods or Services to Another Party

AG72. Paragraph 95 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The purchaser (the resource provider in the binding arrangement) 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 AG73–AG74);

(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 AG75); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG76–AG78) and the entity has an enforceable right to consideration for performance completed to date (see paragraphs AG79–AG81).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 95(a))

AG73. For some types of compliance obligations, the assessment of whether a resource provider receives the economic benefits 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.

AG74. For other types of compliance obligations, an entity may not be able to readily identify whether a resource provider simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance 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 satisfy the remaining compliance obligation to the resource provider. 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 compliance obligation to another entity; and

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

Entity Controls the Asset as it is Created or Enhanced (paragraph 95(b))

AG75. In determining whether a resource provider controls an asset as it is created or enhanced in accordance with paragraph 95(b), an entity shall apply the requirements for control in paragraphs 89–90, 97, and AG183–AG185. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Satisfaction does not Create an Asset with an Alternative Use (paragraph 95(c))

AG76. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 95(c) and 96, 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 entity. The possibility of the binding arrangement with the resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG77. 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 resource provider 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 resource provider without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG78. 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 resource provider or are located in remote areas.

Right to Consideration for Performance Completed to Date (paragraph 95(c))

AG79. In accordance with paragraphs 95(c) and 93, an entity has a right to consideration for compliance obligations 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 resource provider 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 compliance obligations 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 compliance 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 satisfied 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 resource provider (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.

AG80. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser or third-party beneficiary the goods or services promised in the binding arrangement and require the resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to consideration for compliance obligations 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 resource provider to perform its obligations (which include paying the promised consideration).

AG81. An entity should also consider paragraphs AG68, AG70 and AG71 in assessing its right to consideration for performance completed to date related to compliance obligations that require a transfer of goods or services to another party.

Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraph 97)

AG82. In accordance with paragraph 97(e), a resource provider's acceptance of an asset may indicate that the resource provider has obtained control of the asset. Resource provider acceptance clauses may allow the resource provider 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 resource provider obtains control of a good or service.

AG83. If an entity can objectively determine that control of a good or service has been transferred to the resource provider in accordance with the agreed-upon specifications in the binding arrangement, then resource provider acceptance is a formality that would not affect the entity's determination of when the resource provider 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 resource provider 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 recognised before the resource provider accepts the asset, the entity still must consider whether there are any remaining compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

AG84. 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 resource provider has obtained control until the entity receives acceptance by the resource provider. That is because in that circumstance the entity cannot determine that the resource provider 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.

AG85. If an entity delivers a product to a purchaser or third-party beneficiary for trial or evaluation purposes and the resource provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the resource provider until either the resource provider accepts the product or the trial period lapses.

Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs 98–104)

AG86. Methods that can be used to measure an entity's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG87–AG91); and

(b) Input methods (see paragraphs AG92–AG95).

Output Methods

AG87. Output methods recognise revenue on the basis of direct measurements of the value to the entity receiving the outputs from the compliance obligations satisfied to date relative to the remaining compliance obligations under the binding arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

AG88. A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the resource provider can compel the entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a resource provider provides funding to a government science agency (resource 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 resource provider requires the government science agency to report back at each stage. Each of these stages constitutes a specified activity and revenue would be recognised when (or as) they are completed and for the amount incurred in completing that specified action. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to deliver the specified activity, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG89. 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 compliance 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 promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the resource provider that are not included in the measurement of the output.

AG90. As a practical expedient for compliance obligations where the entity is required to transfer a distinct good or service to an external party, if an entity has a right to consideration from a resource provider in an amount that corresponds directly with the value to the resource provider of the entity's compliance obligations 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 recognise revenue in the amount to which the entity has a right to invoice.

AG91. 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

AG92. Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labour hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that compliance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

AG93. An eligible expenditure is a transfer of resources incurred in accordance with the requirements set out in a binding arrangement. A binding arrangement may require an entity to use resources for a particular purpose, such as to further the entity's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable 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. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to incur the eligible expenditure, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG94. The resource provider needs to be able to confirm that the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the entity needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures, were incurred by the entity and directly related to the entity's satisfaction of the promises in the specified manner.

AG95. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the satisfaction of its compliance obligation. 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 98, do not depict the entity's performance in satisfying its compliance obligations. 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 compliance obligation. For example, an entity would not recognise revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the transaction consideration of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the compliance obligation).

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

(ii) The good is not distinct;

(iii) The party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;

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

(v) 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 AG117–AG125).

Right of Return for a Transfer of Goods or Services to Another Party (paragraph 118)

AG96. In some binding arrangements, an entity transfers control of a product to a resource provider and also grants the resource provider 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.

AG97. 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 recognise 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 recognised 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 resource providers on settling the refund liability.

AG98. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

AG99. An entity shall apply the requirements in paragraphs 109–122 (including the requirements for constraining measurement in paragraphs 119–121) to determine the amount of consideration to which the entity expects to be entitled. In transactions where the binding arrangement requires an entity to transfer distinct goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary), this amount would exclude 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 recognise revenue but shall recognise 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 for satisfying its compliance obligations in the binding arrangement and make a corresponding change to the transaction consideration and, therefore, in the amount of revenue recognised.

AG100. 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 recognise corresponding adjustments as revenue (or reductions of revenue).

AG101. An asset recognised for an entity's right to recover products from a resource provider 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.

AG102. Exchanges by resource providers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying this Standard.

AG103. Binding arrangements in which a resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG111–AG116.

Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraph 111(e))

AG104. Consideration payable to a resource provider includes cash amounts that an entity pays, or expects to pay, to the resource provider (or to other parties that purchase the entity's goods or services from the resource provider). Consideration payable to a resource provider 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 resource provider). An entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service (as described in paragraphs 73–77) that the resource provider transfers to the entity. If the consideration payable to a resource provider includes a variable amount, an entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 113–121.

AG105. If consideration payable to a resource provider is a payment for a distinct good or service from the resource provider, 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 resource provider exceeds the current fair value of the distinct good or service that the entity receives from the resource provider, then the entity shall account for such an excess as a reduction of the transaction consideration. If the entity cannot reasonably estimate the current fair value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.

AG106. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

(a) The entity recognises 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.

Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraph 134)

AG107. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone values 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 AG108 that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

AG108. An entity shall allocate a discount entirely to one or more, but not all, compliance 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 values of the goods or services in each bundle; and

(c) The discount attributable to each bundle of goods or services described in paragraph AG108(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 compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

AG109. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with paragraph AG108, an entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service in accordance with paragraph 139(c).

Determination of the Stand-Alone Value (paragraphs 137–140)

AG110. The determination of a stand-alone value for a compliance obligation in accordance with paragraph 137 may be challenging, particularly in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider 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 value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph 139(b).

Warranties for Goods or Services Transferred to Another Party

AG111. In binding arrangements where the entity provides distinct goods or services to another party, 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 resource provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG112. If a resource 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 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 compliance obligation in accordance with paragraphs 68–77 and allocate a portion of the transaction consideration to that compliance obligation in accordance with paragraphs 133–143.

AG113. If a resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with PBE 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.

AG114. 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 compliance obligation because such requirements typically exist to protect resource providers 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 compliance 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 compliance obligation.

AG115. 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 compliance obligation. Therefore, an entity shall allocate the transaction consideration 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 compliance obligation.

AG116. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a compliance 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 centres 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 resource provider 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 compliance obligation. The entity shall account for such obligations in accordance with PBE IPSAS 19.

Principal versus Agent Considerations

AG117. 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 compliance 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 or third-party beneficiary. 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 73–77 and AG53–AG56). If a binding arrangement with a resource provider 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.

AG118. To determine the nature of its promise (as described in paragraph AG117), 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 AG51)); and

(b) Assess whether it controls (as described in paragraph 90) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG119. 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 compliance 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 compliance obligation on its behalf.

AG120. 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 76(a)) provided by another party into the specified good or service for which the resource provider 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.

AG121. When (or as) an entity that is a principal satisfies a compliance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG122. An entity is an agent if the entity's compliance 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 compliance obligation, the entity recognises 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.

AG123. 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 AG119)) include, but are not limited to, the following:

(a) The entity is primarily responsible for satisfying 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 resource provider specifications). If the entity is primarily responsible for satisfying 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 resource provider (for example, if the resource provider 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 resource provider, 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 resource provider 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.

AG124. The indicators in paragraph AG123 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.

AG125. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance 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 recognise revenue for that compliance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Resource Provider Options for Additional Goods or Services

AG126. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG127. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the resource 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 resource provider in that geographical area or market). If the option provides a material right to the resource provider, the resource provider in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.

AG128. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the resource provider 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 Standard only when the resource provider exercises the option to purchase the additional goods or services.

AG129. Paragraph 134 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a resource provider'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 resource provider would obtain when exercising the option, adjusted for both of the following:

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

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

AG130. If a resource provider 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 value 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.

Resource Providers' Unexercised Rights

AG131. In accordance with paragraph 163, upon receipt of a prepayment from a resource provider, an entity shall recognise a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognise its binding arrangement liability (and recognise revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG132. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG133. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the resource provider. If an entity does not expect to be entitled to a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the resource provider 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 119–121 on constraining estimates of variable consideration.

AG134. An entity shall recognise a liability (and not revenue) for any consideration received that is attributable to a resource provider'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) for a Transfer of Goods or Services to Another Party

AG135. In some binding arrangements, an entity charges a resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a healthcare membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG136. To identify compliance 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 satisfy 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 72). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised 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 resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG127.

AG137. 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 compliance obligation in accordance with paragraphs 68–77.

AG138. 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 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG95. That is because the costs of setup activities do not depict the transfer of services to a 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 recognised in accordance with paragraph 152.

Application of Principles to Specific Transactions

AG139. Public benefit entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG143, an entity shall recognise 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

AG140. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.

AG141. An entity shall recognise revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 87–104. An entity shall separately determine whether any inflow of resources from a capital transfer is to be recognised as an asset by applying paragraph 80, and whether its compliance obligation is to be recognised as a liability by applying paragraphs 81–86. The carrying amount of any such liability is reduced as revenue is recognised.

AG142. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

Services In-Kind

AG143. An entity may, but is not required to, recognise services in-kind as revenue and as an asset.

AG144. Although recognition of services in-kind is not required by this Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG145. Services in-kind are services provided by individuals to public benefit entities for no consideration. Some services in-kind meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognised 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 recognise an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognise an expense for the consumption of services in-kind. However, services in-kind may also be utilised to construct an asset, in which case the amount recognised in respect of services in-kind is included in the cost of the asset being constructed.

AG146. Public benefit entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

(a) Technical assistance from governments or international organisations;

(b) Persons convicted of offenses may be required to perform community service for a public benefit entity;

(c) Hospitals may receive the services of volunteers;

(d) Schools may receive voluntary services from parents as teachers' aides or as board members;

(e) A fire station may receive the services of volunteer fire fighters; and

(f) Not-for-profit entities may receive voluntary services from members (for example, IT services, administration services or accounting services) to enable the entity to carry out its activities.

AG147. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity 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. Entities 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 AG146, the entity 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 entity would acquire if the services in-kind were not available.

AG148. 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 Standard does not require the recognition of services in-kind. Paragraph 175, 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 benefit entities, the services provided by volunteers are not material in amount, but may be material by nature.

AG149. 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 entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives may be more likely to recognise those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognise a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

AG150. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider to the future economic benefits or service potential embodied in the item pledged. Entities do not recognise pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity, it is recognised as a gift or donation, in accordance with paragraphs AG164–AG167. Pledges may warrant disclosure as contingent assets under the requirements of PBE IPSAS 19.

Advance Receipts of Transfers

AG151. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognise 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. This liability (advance receipt) may be recognised as a liability (deferred revenue), in accordance with paragraphs 81–86, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans

AG152. Concessionary loans are loans received by an entity at below-market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with PBE IPSAS 41. An entity considers whether any difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see PBE IPSAS 41) is revenue that should be accounted for in accordance with this Standard.

AG153. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognises the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the entity result in a compliance obligation. Where a compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability. As the entity satisfies the compliance obligation, the liability is reduced and an equal amount of revenue is recognised.

Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity receives consideration in a form other than cash, the non-cash consideration is initially measured in accordance with relevant PBE Standards;

(a) Assets such as property, plant and equipment, inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;

(b) [Not used]; and

(c) Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date in accordance with paragraph 109 and the appropriate accounting policy.

Debt Forgiveness and Assumptions of Liabilities

AG155. Lenders will sometimes waive their right to collect a debt owed by a public benefit entity, effectively cancelling the debt. For example, a central government may cancel a loan owed by a local government. In circumstances when a creditor forgives a liability, the local government decreases the carrying amount of the existing liability and recognises an increase in net assets.

AG156. Entities recognise 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.

AG157. 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 AG7–AG9.

AG158. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG159. Fines are economic benefits or service potential received or receivable by an entity, 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 recognised as a fine.

AG160. 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 recognised as a liability. As such, fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 18. As noted in paragraph 5, where an entity 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 entity.

Bequests

AG161. 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 entity 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.

AG162. Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the transaction consideration 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 entity receiving any assets. The entity 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 entity.

AG163. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG166. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG164. 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 resource 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. 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 or service potential flowing to the entity.

AG165. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to certain obligations. External assistance provided by multilateral or bilateral development organisations often includes a component of goods in-kind.

AG166. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG143–AG149. Gifts and donations other than services in-kind and goods in-kind are recognised as assets in accordance with paragraphs 18–25, and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.

AG166.1 An entity may elect not to recognise goods in-kind that meet the definition of inventories in PBE IPSAS 12 Inventories, if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of measuring fair value of the goods at the date of acquisition outweigh the benefits. This will often be the case for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution. In the case where goods in-kind are sold, the entity recognises revenue when they are sold. In the case where such goods in-kind are distributed free of charge, the entity does not recognise revenue.

AG167. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 30.

Licensing

AG168. A licence establishes a resource provider's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences 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.

AG169. In addition to a promise to grant a licence (or licences) to a resource provider, 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 71). As with other types of binding arrangements, when a binding arrangement with a resource provider includes a promise to grant a licence (or licences) in addition to other promised goods or services, an entity applies paragraphs 68–77 to identify each of the compliance obligations in the binding arrangement.

AG170. If the promise to grant a licence is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 73–77, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single compliance obligation. Examples of licences that are not distinct from other goods or services promised in the binding arrangement include the following:

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

(b) A licence 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 licence, the purchaser or third-party beneficiary to access content).

AG171. If the licence is not distinct, an entity shall apply paragraphs 87–97 to determine whether the compliance obligation (which includes the promised licence) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG172. If the promise to grant the licence is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the licence is a separate compliance obligation, an entity shall determine whether the licence 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 licence to a purchaser or third-party beneficiary is to provide the resource provider with either:

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

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

Determining the Nature of the Entity's Promise

AG173. The nature of an entity's promise in granting a licence 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 resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the resource provider has rights (see paragraphs AG174–AG175);

(b) The rights granted by the licence directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG173(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 72).

AG174. Factors that may indicate that a resource provider 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 resource provider related to the intellectual property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG175. An entity's activities significantly affect the intellectual property to which the resource provider 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 resource provider 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.

AG176. Accordingly, if the intellectual property to which the resource provider 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).

AG177. If the criteria in paragraph AG173 are met, an entity shall account for the promise to grant a licence as a compliance 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 95(a)). An entity shall apply paragraphs 98–104 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG178. If the criteria in paragraph AG173 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 licence is granted to the resource provider. This means that the resource provider can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a compliance obligation satisfied at a point in time. An entity shall apply paragraph 97 to determine the point in time at which the licence transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognised for a licence 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 licence. 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 recognise revenue before that code has been provided (or otherwise made available).

AG179. An entity shall disregard the following factors when determining whether a licence 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 licence, rather than define whether the entity satisfies its compliance 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 unauthorised use—a promise to defend a patent right is not a compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the resource provider that the licence transferred meets the specifications of the licence promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG180. Notwithstanding the requirements in paragraphs 119–121, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

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

AG181. The requirement for a sales-based or usage-based royalty in paragraph AG180 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the resource provider would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).

AG182. When the requirement in paragraph AG181 is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph AG180. When the requirement in paragraph AG181 is not met, the requirements on variable consideration in paragraphs 113–122 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG183. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG184. 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 resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG185. 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 resource provider's request (a put option).

A Forward or a Call Option

AG186. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the resource provider 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 PBE IPSAS 13 *Leases*, 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 AG188 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.

AG187. When comparing the repurchase price with the original price, an entity shall consider the time value of money.

AG188. If the repurchase agreement is a financing arrangement, the entity shall continue to recognise the asset and also recognise a financial liability for any consideration received from the resource provider. The entity shall recognise the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG189. If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

A Put Option

AG190. If an entity has an obligation to repurchase the asset at the resource provider'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 resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with PBE IPSAS 13.

AG191. To determine whether a resource provider 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 resource provider has a significant economic incentive to exercise the put option.

AG192. If the resource provider 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 AG96–AG103.

AG193. 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 AG188.

AG194. 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 resource provider 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 AG96–AG103.

AG195. When comparing the repurchase price with the original price, an entity shall consider the time value of money.

AG196. If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

Consignment Arrangements

AG197. 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 recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG198. 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 resource provider 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

AG199. A bill-and-hold arrangement is a binding arrangement under which an entity bills a resource provider 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 resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG200. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 97). 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 resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the resource provider 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 resource provider over the resource provider's asset.

AG201. In addition to applying the requirements in paragraph 97, for a resource provider 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 resource provider has requested the arrangement);

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

(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 resource provider.

AG202. If an entity recognises revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining compliance obligations (for example, for custodial services) in accordance with paragraphs 68–77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 133–143.

Disclosure (paragraphs 167–193)

AG203. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG204. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of PBE IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

Disclosure of Disaggregated Revenue (paragraphs 179–180)

AG205. Paragraph 179 requires an entity to disaggregate revenue from binding arrangements 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. Some entities may need to use more than one type of category to meet the objective in paragraph 179 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG206. 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 AG206(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.

AG207. Examples of categories that might be appropriate include, but are not limited to, the following:

(a) Type of compliance obligation;

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

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

(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.

Appendix B

Amendments to Other PBE Standards

An entity shall apply the amendments in this appendix when it applies PBE IPSAS 47.

The amendments to other standards in this appendix are based on the text of those other standards, including any amendments to those standards approved when PBE IPSAS 47 was issued in [Date].

Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 50, 88 and 94 are amended, and paragraph 154.24 is added. New text is underlined and deleted text is struck through.

…

Overall Considerations

…

Offsetting

50. ~~PBE IPSAS 9, *Revenue from Exchange Transactions*,~~ PBE IPSAS 47 *Revenue,* ~~defines revenue and~~ requires ~~it~~ revenue to be measured 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 the transaction. The amount of revenue recognised reflects any trade discounts and volume rebates allowed by the entity. ~~An entity undertakes, i~~In the course of its ~~ordinary~~ activities, an entity undertakes 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

    (b) …

…

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:**

    …

    (g) ~~Recoverables from non-exchange transactions (taxes and transfers);~~ [Deleted by IPSASB]

    (h) Receivables ~~from exchange transactions~~;

    …

    (k) Payables ~~under exchange transactions~~;

…

…

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 PBE Standards 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.

…

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions, receivables from related parties, prepayment, and other amounts;

…

Commencement and application

…

154.24. PBE IPSAS 47 *Revenue* issued in [Date], amended paragraphs 50, 88 and 94. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Implementation Guidance

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

Illustrative Financial Statement Structure

…

A. Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

Public Sector Entity—Statement of Comprehensive Revenue and Expenses 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~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~ without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X

	20X2	20X1
Total revenue	X	X
…	…	…
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

**This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

Public Sector Entity—Statement of Comprehensive Revenue and Expenses 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~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~ without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	X	X
…	…	…
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

** This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

B. Not-for-Profit Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

Not-for-Profit Entity—Statement of Comprehensive Revenue and Expenses for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue**		
Fees and other revenue from members*	X	X
Revenue from providing other goods or services*	X	X
Total revenue from compliance obligations in a binding arrangement	XX	XX
Bequests and Donations*	X	X
Grants received*	X	X
Other revenue without binding arrangements	X	X
Total revenue without binding arrangements	XX	XX
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

*These examples of not-for-profit revenue streams are illustrative and not prescriptive per the disclosure requirements in PBE IPSAS 47.

**This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

…

Not-for-Profit—Statement of Comprehensive Revenue and Expenses for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue**		
Fees and other revenue from members*	X	X
Revenue from providing other goods or services*	X	X
Total revenue from compliance obligations in a binding arrangement	XX	XX
Bequests and Donations*	X	X
Grants received*	X	X
Other revenue without binding arrangements	X	X
Total revenue without binding arrangements	XX	XX
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…

Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

*These examples of not-for-profit revenue are illustrative and not prescriptive per the disclosure requirements.

**This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

Amendments to PBE IPSAS 2 *Cash Flow Statements*

Paragraphs 21 and 22 are amended, and paragraph 63.5 is added. New text is underlined and deleted text is struck through.

…

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded, for example, by:

 (a) ~~By way of non-exchange transactions~~ Taxes (directly and indirectly); ~~or~~

 (b) ~~From the recipients of goods and services provided by the entity;~~ [deleted]

 (c) Other compulsory contributions and levies;

 (d) Transfers; or

 (e) Provision of goods or services to another entity in a binding arrangement.

 …

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:

 ….

 (c) Cash receipts from grants~~, or~~ transfers and other appropriations or other budget authority made by central government or other public sector entities;

…

Commencement and application

…

63.5 IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 21 and 22. An entity shall apply these amendments when it applies PBE IPSAS 48.

…

Illustrative Examples

…

Notes to the Cash Flow Statement

…

(b) *Property, Plant, and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital ~~grants~~ transfer by the central government. Cash payments of X were made to purchase property, plant, and equipment.

…

Indirect Method Cash Flow Statement (paragraph 27(b))

…

(b) *Property, Plant, and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital ~~grants~~ transfer by the central government. Cash payments of X were made to purchase property, plant, and equipment.

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

Paragraph 11 is amended, and paragraph 72.7 is added. New text is underlined and deleted text is struck through.

…

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

    (a) The currency:

        (i) That revenue is raised from, such as taxes, donations, bequests, grants, transfers, and fines;

        …

…

Commencement and application

…

72.7. PBE IPSAS 47, issued in [Date], amended paragraph 11. An entity shall apply this amendment when it applies PBE IPSAS 47

…

Illustrative Examples

…

Example 2—Multiple Receipts for Revenue Recognised at a Single Point in Time

…

IE7. Applying ~~paragraph 28 of PBE IPSAS 9, *Revenue from Exchange Transactions*,~~ PBE IPSAS 47 *Revenue*, Entity B recognises revenue on September 1, 20X2, the date on which it transfers the goods to the customer, thereby satisfying its compliance obligation in the contract.

…

Amendments to PBE IPSAS 5 *Borrowing Costs*

Paragraph 26 is amended, and paragraph 43.6 is added. New text is underlined and deleted text is struck through.

…

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalised. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalise only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest free capital contribution or capital ~~grant~~ transfer, it will not incur any borrowing costs, and consequently will not capitalise any such costs.

…

Commencement and application

…

43.6. PBE IPSAS Revenue, issued in [Date], amended paragraph 26. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 12 *Inventories*

Paragraphs 2, 9, 11, 39, and 48 are amended, paragraph 52.7 is added, and paragraph 28 (and the preceding heading) 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 PBE IPSAS 11, *Construction Contracts*);~~ [Deleted]

    …

…

Definitions

…

9. The following terms are used in this Standard with the meanings specified:

…

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

…

Non-exchange transactions are transactions that are not exchange transactions, where 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.

…

…

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 or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many 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 recognised the related revenue. (guidance on recognition of revenue can be found in PBE IPSAS 9, *Revenue from Exchange Transactions*.)~~ Costs incurred to fulfil a binding arrangement that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with PBE IPSAS 47 *Revenue*.

…

~~*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 labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included, but are recognised 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 by IPSASB]

…

Net Realisable Value

…

39. Inventories are usually written down to net realisable 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.~~

…

Commencement and application

…

52.7. IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 2, 9, 11, 39, and 48, and paragraph 28 was deleted. An entity shall apply these amendments when it applies PBE IPSAS 47.

…**Basis for Conclusions**

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 12.

…

PBE IPSAS 47 *Revenue* Amendments

BC6. The definitions of exchange and non-exchange transactions have been incorporated into PBE IPSAS 12 (refer to paragraph 9) from PBE IPSAS 9 *Revenue from Exchange Transactions*. This change was necessitated by the supersession of PBE IPSAS 9 by PBE IPSAS 47. The inclusion of these definitions within PBE IPSAS 12 ensures continuity and clarity in the application of these definitions, following the amendments introduced by PBE IPSAS 47.

Amendments to PBE IPSAS 13 *Leases*

Appendix B Application Guidance paragraph B8 are amended, and paragraph 86.8 is added. New text is underlined and deleted text is struck through.

…

Commencement and application

…

86.8. PBE IPSAS 47 *Revenue*, issued in [Date], amended Application Guidance paragraph B8. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Appendix B Application Guidance *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

…

Consensus

…

B8. The criteria in ~~paragraph 19 of PBE IPSAS 9~~ PBE IPSAS 47, paragraphs 17 – 29 for transactions without binding arrangements and paragraphs 87 – 88 and 91 – 104 for transactions with binding arrangements, shall be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an entity might receive. Factors such as whether there is continuing involvement in the form of significant future performance obligations necessary to earn the fee, whether there are retained risks, the terms of any guarantee arrangements, and the risk of repayment of the fee, shall be considered. Indicators that individually demonstrate that recognition of the entire fee as income when received, if received at the beginning of the arrangement, is inappropriate include:

…

Amendments to PBE IPSAS 16 *Investment Property*

Paragraphs 13, 78, and 81 are amended, and paragraph 102.10 is added. New text is underlined and deleted text is struck through.

…

Classification of Property as Investment Property or Owner-Occupied Property

…

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

…

~~(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 PBE IPSAS 11, *Construction Contracts*).~~ [Deleted by IPSASB]

…

…

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 the investment property~~, an entity applies the criteria in PBE IPSAS 9 for recognising revenue from the sale of goods and considers the related guidance in the Implementation~~

~~Guidance to PBE IPSAS 9~~ is the date the recipient obtains control of the investment property in accordance with the requirements in PBE IPSAS 47 *Revenue*. PBE 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 ~~recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9, using the effective interest method~~ determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of PBE IPSAS 47. 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 consideration in PBE IPSAS 47.

…

Commencement and application

…

102.10 IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 13, 78, and 81. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

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

Paragraphs 83A, 84, and 87 are amended, and paragraph 108.14 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 recognised as revenue in accordance with ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

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 PBE IPSAS 9 for recognising 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, and any enforceable obligations or compliance obligations are satisfied in PBE IPSAS 47. PBE 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 ~~recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9, reflecting the effective yield on the receivable~~ determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of PBE IPSAS 47. 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 consideration in PBE IPSAS 47.

…

Commencement and application

…

108.14. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 83A, 84, and 87. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

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

Paragraphs 13 and 15 are amended, and paragraph 112.12 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 PBE IPSAS 11, *Construction Contracts*); and~~ [Deleted]

(b) … ~~.~~; and

(c) Revenue from binding arrangements (see PBE IPSAS 47 *Revenue*). However, as PBE IPSAS 47 contains no specific requirements to address binding arrangements that are, or have become, onerous, this 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. ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~PBE IPSAS 47 identifies the circumstances in which revenue ~~from exchange transactions~~ arising from binding arrangements that include compliance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognised, and provides practical

guidance on the application of the recognition criteria. This Standard does not change the requirements of ~~PBE IPSAS 9~~ PBE IPSAS 47.

…

Commencement and application

…

112.12. IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 13 and 15. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

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

Paragraphs 2 and 8 are amended, and paragraph 83.10 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:

   …

   (b) ~~Assets arising from construction contracts (see PBE IPSAS 11, *Construction Contracts*);~~ Binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement that are recognised in accordance with PBE IPSAS 47 *Revenue*;

…

8. This Standard does not apply to inventories, ~~and assets arising from construction contracts~~ binding arrangement assets, and assets arising from costs to obtain or fulfil a binding arrangement, because existing PBE Standards applicable to these assets contain requirements for recognising and measuring these assets.

…

Commencement and application

…

83.10. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 2 and 8. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

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

Paragraphs 2, 8 and 29 are amended, and paragraph 127.12 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:

   …

   (b) ~~Assets arising from construction contracts (see PBE IPSAS 11, *Construction Contracts*)~~ Binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement that are recognised in accordance with PBE IPSAS 47 *Revenue*;

   …

…

8. This Standard does not apply to inventories, ~~and cash-generating assets arising from construction contracts~~ binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement, because existing standards applicable to these assets contain requirements for recognising and measuring such assets. This Standard does not apply to deferred tax assets, assets related to employee benefits, or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs to sell. PBE IPSAS 27 dealing with biological assets related to agricultural activity, and PBE IFRS 5 dealing with non-current assets (or disposal groups) classified as held for sale, contains measurement requirements.

…

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

   (a) …

   (b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates, but previous sensitivity analysis of recoverable amount shows that:

      (i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly ~~exchange~~ revenues arising from transactions with binding arrangements) to compensate for any increase in market rates); or

      (ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.

…

Commencement and application

…

127.12. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 2, 8, and 29. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraphs AG21, AG22, and AG46 are amended, and paragraph 62.8 is added. New text is underlined and deleted text is struck through.

…

Commencement and application

…

62.8. PBE IFRS 47 Revenue, issued in [Date], amended paragraphs AG21, AG22 and AG46. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

…

Scope

…

AG21. It is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from ~~non-exchange~~ revenue transactions are accounted for in accordance with ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ PBE IPSAS 47 *Revenue*. If non-exchange revenue transactions 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 AG10–AG18 of this Standard. An entity uses the guidance in this Standard and ~~PBE IPSAS 23~~ PBE IPSAS 47 in assessing whether a ~~non-exchange~~ revenue transaction 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 is in substance a liability or an equity instrument.

…

AG46. Except as required by PBE IPSAS 47, 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 PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, and 42N are amended, and paragraph 53.14 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~~ <u>revenue</u> transactions ~~that are within the scope of PBE IPSAS 9 and non-exchange transactions within the scope of PBE IPSAS 23~~<u>within the scope of PBE IPSAS 47 *Revenue*</u> which give rise to financial instruments for the purpose of recognising impairment gains or losses in accordance with paragraph 3 of PBE 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 PBE IPSAS 41 are applied. However:

(a) For receivables that result from ~~exchange~~ <u>revenue</u> transactions that are within the scope of ~~PBE IPSAS 9 and non-exchange transactions within the scope of PBE IPSAS 23~~<u>PBE IPSAS 47</u> and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognised in accordance with paragraph 87 of PBE 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:

…

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

…

(iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~PBE IPSAS 23~~PBE IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of PBE 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:

…

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

…

(iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~PBE IPSAS 23~~PBE IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of PBE IPSAS 41.

…

*42N. For receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~PBE IPSAS 23~~PBE IPSAS 47 or lease receivables to which an entity applies paragraph 87 of PBE IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of PBE IPSAS 41).

…

Commencement and application

…

53.14. IPSAS 47 *Revenue*, issued in [Date] amended paragraphs 5A, 42A, 42H, 42M, and 42N. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 31 *Intangible Assets*

Paragraphs 6, 26, 113, 115, and AG6 are amended, and paragraph 133.10 is added. New text is underlined and deleted text is struck through.

…

Scope

…

6. If another PBE Standard prescribes the accounting for a specific type of intangible asset, an entity applies that PBE Standard 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 ~~PBE IPSAS 11,~~ ~~*Construction Contracts*, and~~ PBE IPSAS 12 *Inventories*);

   …

   (e) …;~~ and~~

   (f) …; and

   (g) Assets arising from binding arrangements that are recognised in accordance with PBE IPSAS 47 *Revenue*.

…

Recognition and Measurement

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

   …

   This requirement applies to the cost measured at recognition (the cost incurred in an exchange transaction to acquire or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) 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 transaction). ~~In determining t~~The date of disposal of ~~such an asset, an entity applies the criteria in PBE IPSAS 9, *Revenue from Exchange Transactions* for recognising revenue from the sale of goods~~ an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a compliance obligation in the binding arrangement is satisfied in PBE IPSAS 47. PBE IPSAS 13 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 ~~recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9 reflecting the effective yield on the receivable~~ determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of PBE IPSAS 47. 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 consideration in PBE IPSAS 47.

…

Commencement and application

…

133.10 PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 6, 26, 113, 115, and AG6. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

…

AG6. PBE IPSAS 31 does not apply to intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~PBE IPSAS 11 and~~ PBE IPSAS 12 and PBE IPSAS 47) or leases of intangible assets that fall within the scope of PBE 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 or that is accounted for in accordance with PBE IPSAS 13. 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.

…

Amendments to PBE IPSAS 32 *Service Concession Arrangements: Grantor*

Paragraphs 30, AG56, and AG64 are amended, and paragraph 37.7 is added. New text is underlined and deleted text is struck through.

…

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 ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~PBE IPSAS 47 *Revenue*.

…

Commencement and application

…

37.7. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 30, AG56, and AG64. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

This Appendix is an integral part of PBE IPSAS 32.

…

Other Revenues (see paragraph 30)

…

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 ~~PBE IPSAS 9~~PBE IPSAS 47 *Revenue*. 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.

…

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognised in accordance with ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47.

…

Implementation Guidance

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

…

Accounting Framework for Service Concession Arrangements

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

…

WITHIN THE SCOPE OF THE STANDARD

- …
- Grantor recognises related liability equal to the value of the SCA asset (~~PBE IPSAS 9,~~ PBE IPSAS 28 PBE IPSAS 30,~~ and~~ PBE IPSAS 41, and PBE IPSAS 47)
- …

…

IG4. Shaded text shows arrangements within the scope of PBE 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/ Privatisation/ 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 PBE Standard	IPSAS 13	PBE IPSAS 1	This Standard/PBE IPSAS 17/ PBE IPSAS 31/PBE FRS 45		PBE IPSAS 17/PBE IPSAS 31 (derecognition) ~~PBE IPSAS 9~~PBE IPSAS 47 (revenue recognition)	

…

Amendments to PBE IPSAS 35 *Consolidated Financial Statements*

Paragraph AG13 is amended, and paragraph 79.6 is added. New text is underlined and deleted text is struck through.

…

Commencement and application

…

79.6. PBE IPSAS 47 Revenue, issued in [Date], amended paragraph AG13. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

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:

…

(c) Collecting revenue ~~through non-exchange transactions~~;

…

…

Amendments to PBE IPSAS 40 *PBE Combinations*

Paragraph 115 is amended, and paragraph 126.3 is added. New text is underlined and deleted text is struck through.

…

The Acquisition Method of Accounting

…

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 recognised in an acquisition at the higher of:

(a) The amount that would be recognised in accordance with PBE IPSAS 19; and

(b) The amount initially recognised less, if appropriate, the cumulative ~~amortisation~~ amount of revenue recognised in accordance with ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~ PBE IPSAS 47.

This requirement does not apply to contracts accounted for in accordance with PBE IPSAS 41 *Financial Instruments*.

…

Commencement and application

…

126.3. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 115. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Illustrative Examples

…

Accounting for Amalgamations

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of PBE IPSAS 40

…

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had ~~provided~~ entered into a binding arrangement with COB to provide COB with a ~~grant~~ transfer of CU700 to be used in the provision of an agreed number of training courses (i.e., the compliance obligation).

IE164. The ~~grant~~ transfer ~~was subject a condition that the grant would~~must be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the amalgamation ~~date~~, COB had delivered half of the agreed number of courses, and recognised a liability of CU350 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47 *Revenue*. 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 recognise 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 and AG57 of PBE IPSAS 40

…

IE176. MF would recognise an adjustment for the tax forgiven, and account for the remaining tax receivable in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of PBE IPSAS 40

IE192. …

		COA (CU)	COB (CU)
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from ~~exchange transactions~~ compliance obligations in binding arrangements	2,681	25,377
	…	…	…

…

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78, AG85 and AG87 of PBE IPSAS 40

…

IE250. MF would recognise an adjustment for the tax forgiven, and account for the remaining tax receivable in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of PBE IPSAS 40

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE ~~provided~~ entered into a binding arrangement with TE to provide 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 (i.e., the compliance obligation).

IE264. The ~~grant~~ transfer was subject to a ~~condition~~ compliance obligation that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the acquisition ~~date~~, TE had delivered a quarter of the agreed number of courses, and recognised a liability of CU600 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47. 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 recognise an asset in respect of the ~~grant~~ transfer, but accounted for the full CU800 as an expense.

…

Amendments to PBE IPSAS 41 *Financial Instruments*

Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 are amended, and paragraph 156.6 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 ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47 *Revenue*, applies~~; except as described in~~ (see paragraph AG6).**

…

3. The impairment requirements of this Standard shall be applied to those rights arising from ~~PBE IPSAS 9, Revenue from Exchange Transactions~~PBE IPSAS 47 *Revenue*, ~~and PBE IPSAS 23~~ transactions ~~which give rise to financial instruments~~ for the purposes of recognising 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 recognised in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies ~~PBE IPSAS 23~~ PBE IPSAS 47.**

…

Classification

…

Classification of Financial Liabilities

45. An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

…

(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 recognised (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortisation~~ revenue recognised in accordance with the principles of ~~PBE IPSAS 9~~PBE IPSAS 47.

(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 recognised (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortisation~~ revenue recognised in accordance with the principles of ~~PBE IPSAS 9~~PBE IPSAS 47.

…

…

Measurement

Initial Measurement

…

60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term receivables at their transaction consideration (as defined in PBE IPSAS 47) if the short-term receivables do not contain a significant financing component (in accordance with PBE IPSAS 47, or when the entity applies the practical expedient in paragraph 126 of PBE IPSAS 47) ~~and payables at the original invoice amount if the effect of discounting is immaterial~~. An entity may measure short-term payables at the transaction consideration 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 <u>or binding arrangement assets</u> that result from ~~exchange~~ transactions ~~that are~~ within the scope of ~~PBE IPSAS 9~~<u>PBE IPSAS 47</u> ~~and non-exchange transactions within the scope of PBE IPSAS 23~~ <u>and that</u>:

<u>(i) Do not contain a significant financing component in accordance with PBE IPSAS 47 (or when the entity applies the practical expedient in accordance with paragraph 126 of PBE IPSAS 47);</u>

<u>(ii) Contain a significant financing component in accordance with PBE IPSAS 47, 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.</u>

(b) …

…

Commencement and application

…

<u>156.6. PBE IPSAS 47 Revenue, issued in [Date], amended paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158. An entity shall apply these amendments when it applies PBE IPSAS 47.</u>

…

Application Guidance

…

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 ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~<u>PBE IPSAS 47 *Revenue*</u>.

…

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 <u>in PBE IFRS 17 (see paragraph 7(e) of PBE IFRS 17)</u> if the risk transferred is significant, the issuer applies this Standard. Nevertheless, if the issuer has previously <u>applied accounting that is applicable to insurance contracts and</u> adopted an accounting policy that treated financial guarantee contracts as insurance contracts, the issuer may elect to apply either this Standard or <u>PBE IFRS 17</u> to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognise 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 recognised less, when appropriate, the cumulative ~~amortisation~~ amount of revenue recognised in accordance with the principles of ~~PBE IPSAS 9~~PBE IPSAS 47 (see paragraph 45(c)).

…

(c) If a financial guarantee contract was issued in connection with the ~~sale~~ provision of goods, the issuer applies ~~PBE IPSAS 9~~PBE IPSAS 47 in determining when it recognises the revenue from the guarantee and from the ~~sale~~ provision of goods.

AG6. ~~Rights and obligations (assets and liabilities) may arise from non-exchange revenue transactions, for example, an entity may receive cash from a multi-lateral agency to perform certain activities. Where the performance of those activities is subject to conditions, an asset and a liability is recognised simultaneously. Where the asset is a financial asset, it is recognised in accordance with PBE IPSAS 23, and initially measured in accordance with PBE IPSAS 23 and this Standard. A liability that is initially recognised as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in PBE IPSAS 23 .~~ A right from a revenue transaction that meets the definition of an asset is initially recognised and measured in accordance with PBE IPSAS 47. Similarly, an obligation from a revenue transaction that meets the definition of a liability is initially recognised and measured in accordance with PBE IPSAS 47. After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47 is no longer appropriate, an entity considers whether a financial liability should be recognised in accordance with this Standard. Other liabilities that may arise from ~~non-exchange~~ revenue transactions are recognised and measured in accordance with this Standard if they meet the definition of a financial liability in PBE IPSAS 28.

…

Recognition and Derecognition

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitisation schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognised as assets. An entity recognises the revenue arising from such transactions in accordance with ~~the relevant revenue standard (see PBE IPSAS 9and PBE IPSAS 23)~~PBE IPSAS 47. Such transactions may give rise to financial liabilities as defined in PBE 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 recognised 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 recognised 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 through a contract to pay for default losses on a transferred asset prevents the transferred asset from being derecognised 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 recognised in surplus or deficit ~~on a time proportion basis~~ when (or as) the compliance obligation is satisfied (~~see PBE IPSAS 9~~ in accordance with the principles of PBE IPSAS 47) and the carrying value of the asset is reduced by any loss allowance.

…

…

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~~AG155–AG158 of ~~PBE IPSAS 23~~ PBE IPSAS 47.

AG44. Lenders will sometimes waive their right to collect debt owed by a public benefit entity, for example, a central 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 transaction it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG155–AG158 of ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Measurement

~~Non-Exchange~~ Revenue Transactions

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions is dealt with in ~~PBE IPSAS 23~~ PBE IPSAS 47. Assets resulting from ~~non-exchange~~ revenue transactions can arise out of both contractual and non-contractual arrangements (see PBE 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 recognised in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47;

(b) Initially measured:

(i) At ~~fair value~~ the transaction consideration using the principles in ~~PBE IPSAS 23~~ PBE IPSAS 47; 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)

…

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 PBE IPSAS 28 and paragraphs ~~42–58~~ AG152–AG153 of ~~PBE IPSAS 23~~ PBE IPSAS 47. 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 ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Illustrative Examples are provided in paragraph ~~IG54 of PBE IPSAS 23~~ IE296–IE299 of PBE IPSAS 47 as well as paragraphs IE153 ~~to~~ –IE161 accompanying this Standard.

…

Equity Instruments Arising from Non-Exchange Transactions

…

AG129. At initial recognition of such transactions, an entity shall analyse 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 transaction. To the extent that the transaction, or component of the transaction, is a non-exchange transaction, any assets or revenues arising from the transaction are accounted for in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47. The entity providing the resources shall recognise the amount as an expense in surplus or deficit at initial recognition.

…

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 recognised 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 recognised less, when appropriate, the cumulative ~~amortisation~~ amount of revenue recognised in accordance with ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~PBE IPSAS 47.

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 recognise 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 recognised, less, when appropriate, the cumulative ~~amortisation~~ amount of revenue recognised in accordance with ~~PBE IPSAS 9~~PBE IPSAS 47. 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.

…

Amortised Cost Measurement

Effective Interest Method

…

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~PBE IPSAS 9~~PBE IPSAS 47 include:

…

…

Illustrative Examples

…

Concessionary Loans (Paragraphs AG118~~–AG126~~AG127)

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 recognised in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47 *Revenue*.

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognises 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

~~PBE IPSAS 23~~ PBE IPSAS 47 is considered in recognising either a liability or revenue for the off-market portion of the loan. Paragraph ~~IG54~~IE302 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

…

Section G Concessionary Loans and Non-Exchange Equity Transactions

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 PBE IPSAS 28 and paragraphs ~~42–58~~AG152–AG153 of ~~PBE IPSAS 23~~ PBE IPSAS 47 *Revenue*. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction ~~price~~ consideration 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. After initial recognition at fair value, an entity subsequently assesses the classification of concessionary loans in accordance with paragraphs 39–44 and measures concessionary loans in accordance with paragraphs 61–65.

…

Amendments to PBE IFRS 17 *Insurance Contracts*

Paragraphs 7 (a) and (c), 8, 132.2C.1, AG6 and AG28. New text is underlined and deleted text is struck through.

Scope

7. An entity shall not apply PBE IFRS 17 to:

   (a) Warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue* and PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*).

   …

   (c) Contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, contingent lease payments and similar items: see ~~PBE IPSAS 9~~ PBE IPSAS 47, PBE IPSAS 13 *Leases* and PBE IPSAS 31 *Intangible Assets*).

   …

8. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply ~~PBE IPSAS 9~~ PBE IPSAS 47 instead of PBE IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

…

Commencement and Application

…

132.2C.1. PBE IPSAS 47 *Revenu*e, issued in [Date], amended paragraphs 7,8, AG6 and AG28. An entity shall apply these amendments when it applies PBE IPSAS 47.

Application Guidance

Definition of an Insurance Contract (par 13.1) – Payments in Kind

…

AG6. Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either PBE IFRS 17 or ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

…

Examples of Insurance Contracts

…

AG28. An entity shall apply other applicable Standards, such as PBE IPSAS 41 and ~~PBE IPSAS 9~~ PBE IPSAS 47, to the contracts described in paragraph AG27.

…

Basis for Conclusion

Boards' Position on Captive Insurers in AASB ED 319/NZASB ED 2022-3

BC279. The Boards considered that the issues surrounding captive insurers are essentially reporting entity issues, that could affect the application of Accounting Standards more generally, rather than being issues of particular relevance to the insurance project. The Boards observed that governments which regard their captive insurer(s) as needing to prepare general purpose financial statements would have to determine whether they have:

(a) insurance contracts and need to apply insurance contract accounting; or
(b) are only service providers, akin to insurance brokers that are intermediaries between policyholders and insurers, that would apply, for example, AASB 15 *Revenue from Contracts with Customers*/~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

The Boards also observed that governments which regard their captive insurer(s) as not needing to prepare general purpose financial statements, might seek to have them prepare a type of segment information, for example, for management purposes.

…

Amendments to PBE IAS 12 *Income Taxes*

Paragraphs 59 is amended, and paragraph 98.17 is added. New text is underlined and deleted text is struck through.

…

Recognition of Current and Deferred Tax

…

Items recognised in Surplus or Deficit

…

59. Most deferred tax liabilities and deferred tax assets arise where revenue or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in surplus or deficit. Examples are when:

(a) Interest, royalty or dividend revenue is received in arrears and is included in accounting profit in accordance with ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~, ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47 *Revenue* or PBE IPSAS 41, as relevant, but is included in taxable profit (tax loss) on a cash basis; and

…

Commencement and application

…

98.17. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 59. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Amendments to PBE FRS 45 *Service Concession Arrangements: Operator*

Paragraphs 11, 12 and 18 are amended, and paragraph 30.3 is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement of Arrangement Consideration

…

11. **The operator shall recognise and measure revenue in accordance with ~~PBE IPSAS 11 Construction Contracts and PBE IPSAS 9 Revenue from Exchange Transactions~~ PBE IPSAS 47 *Revenue* for the services it performs. If the operator performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative ~~fair values~~ stand-alone values of the services delivered, in accordance with PBE IPSAS 47 paragraphs 136 – 140. ~~when the amounts are separately identifiable.~~ The nature of the consideration determines its subsequent accounting treatment. The subsequent accounting for consideration received as a financial asset and as an intangible asset is detailed in paragraphs 21–24 below.**

Construction or Upgrade Services

12. **The operator shall account for revenue and costs relating to construction or upgrade services in accordance with ~~PBE IPSAS 11~~ PBE IPSAS 47.**

…

Operation Services

18. **The operator shall account for revenue and costs relating to construction or upgrade services in accordance with ~~PBE IPSAS 9~~ PBE IPSAS 47.**

…

Commencement and application

…

30.3. IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 11, 12 and 18. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE FRS 48 *Service Performance Reporting*

Paragraphs 28 is amended and 49.1 is added. New text is underlined and deleted text is struck through.

…

Information to be Reported

…

Performance Measures and/or Descriptions

…

28. In reporting on the cost of goods and services there are some important considerations. Financial statements and service performance information are both important components of a public benefit entity's general purpose financial report. The service performance information needs to be linked to the financial statements to convey a coherent picture about the performance of an entity. This link is generally made, where practicable and appropriate, by reporting on the cost of goods and services. An entity reporting on the cost of goods and services shall provide a reconciliation between the expenses in the financial statements and the total goods and services costs reported in the service performance information and, where appropriate, an acknowledgement of the use of donated goods or services which have not been recognised in the financial statements (~~PBE IPSAS 23 Revenue from Non-Exchange Transactions~~ PBE IPSAS 47 Revenue establishes requirements for the recognition of donated goods and services in the financial statements). In some cases, for example where an entity relies heavily on donated goods and services, information on how donated resources have contributed to the entity's service performance may be more useful than cost information in providing an overall picture of the entity's performance.

…

Commencement and application

…

49.1. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 28. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Amendments to XRB A1 *Application of the Accounting Standards Framework*

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs

Accounting Standards

…

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 47 *Revenue*

PBE IFRS 4 *Insurance Contracts* (superseded on adoption of PBE IFRS 17 for not-for-profit entities)

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 47 Revenue.

Background: IPSAS 47 *Revenue*

BC1. In May 2023, the IPSASB issued IPSAS 47 *Revenue*, establishing a comprehensive framework for accounting for revenue transactions within a single standard. Previously, IPSAS literature included two standards for exchange revenue transactions, IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*, as well as one standard for non-exchange revenue transactions, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 47 supersedes those three revenue standards, providing a more cohesive and robust approach to revenue recognition.

BC2. The IPSASB's primary objectives for developing a new revenue standard were to consider the extent to which the revenue recognition model in IFRS 15 *Revenue from Contracts with Customers*, should be introduced into IPSAS literature. Additionally, the IPSASB sought to address various challenges associated with the previous IPSAS revenue standards, including the difficulties in distinguishing between exchange and non-exchange transactions, as well as between restrictions and conditions. Furthermore, there was a need for more guidance on common issues such as accounting for multi-year funding, capital transfers, appropriations and services in-kind.

BC3. IPSAS 47 was developed as a single, unified revenue standard and introduces a new approach to revenue accounting. It introduces two accounting models and distinguishes between revenue from transactions *with* binding arrangements and revenue from transactions *without* binding arrangements. IPSAS 47 also contains extensive guidance and is accompanied by several illustrative examples to support the application of the new requirements. The requirements in IPSAS 47, particularly for transactions with binding arrangements, are substantially aligned with IFRS 15 (with some public sector modifications).

BC4. The IPSASB considered that the new approach to accounting for revenue and the related guidance would help address the application challenges mentioned in paragraph BC2 in relation to the previous revenue standards. This new standard is expected to increase transparency regarding entities' revenue transactions due to its more robust and objective approach to accounting for revenue. Additionally, IPSAS 47 is anticipated to provide more useful information to users of financial statements through enhanced disclosures about revenue.

NZASB decision to develop PBE IPSAS 47 *Revenue*

BC5. Following the issue of IPSAS 47, the New Zealand Accounting Standards Board (NZASB) decided to develop an internationally aligned, locally relevant PBE Standard using IPSAS 47 as a starting point. The NZASB recognised that IPSAS 47, leveraging the principles of IFRS 15, offers a superior model for revenue recognition, leading to higher quality reporting. Developing such a PBE Standard would be in accordance with New Zealand's Accounting Standards Framework, which led the NZASB to note the following:

(a) The IPSASB's reasons for developing IPSAS 47, as described in paragraph BC2 and BC3 above, also justify the introduction of these requirements into PBE Standards.

(b) The requirements in PBE IPSAS 47 would apply to any PBE (whether not-for-profit (NFP) or public sector) that receives revenue with or without a binding arrangement. This broad applicability ensures that all PBEs reporting revenue will apply the same robust revenue framework, improving comparability across the PBE sector and eliminating inconsistencies resulting from the application of three different revenue standards.

(c) The concept of a 'binding arrangement' is prevalent throughout IPSAS literature, most notably in IPSAS 48 *Transfer Expenses*[9]. As PBE Standards are generally primarily based on IPSAS, developing a PBE Standard using IPSAS 47 as a starting point would therefore enhance the coherence of the suite of PBE Standards.

(d) As noted above, PBE IPSAS 47 is substantively aligned with NZ IFRS 15. For PBEs with for-profit subsidiaries – sometimes called 'mixed groups' – it means that fewer accounting adjustments will be needed when preparing group financial statements. Additionally, this alignment enhances skills transferability, as individuals with experience in applying IFRS 15 will be well-equipped to work with PBE IPSAS 47. This facilitates greater mobility of accounting professionals across sectors and supports consistency in financial reporting practices.

(e) The expected costs to be incurred by constituents include those predominately occurring upon transition to PBE IPSAS 47 (such as the investment of time and resources into understanding the new accounting requirements) as well as those that are expected to occur on an ongoing basis (such as the need to apply significant judgement in the application of the principles to each new binding arrangement, or when a binding arrangement is modified). The NZASB considers that the benefits of developing a PBE Standard using IPSAS 47 as the starting point, as described in paragraph BC4(a)–(d) are expected to exceed these costs.

BC5. In developing PBE IPSAS 47, the NZASB received feedback from a PBE Working Group, consisting of individuals with practical accounting background in public sector and NFP reporting. The objective of this group was for members to share their practical insights and expertise in the public and not-for-profit sectors to assist the NZASB with the development of PBE IPSAS 47 and PBE IPSAS 48. Through discussions with the PBE Working Group and other work performed to understand the New Zealand jurisdictional framework and legal context, the NZASB concluded that the fundamental accounting principles in IPSAS 47 were generally appropriate for application by both public sector and NFP public benefit entities in New Zealand.

BC6. Following its review of the fundamental accounting principles in IPSAS 47, the NZASB considered the nature and extent of modifications to be made to IPSAS 47 to ensure that PBE IPSAS 47 is fit-for-purpose in New Zealand. The NZASB consulted the PBE Working Group on existing issues with the accounting for revenue and transfer expenses in practice, as well as potential implementation issues relating to the requirements in IPSAS 47. The NZASB also considered comments from New Zealand constituents on the IPSASB ED 70 *Revenue with Performance Obligations* and IPSASB ED 71 *Revenue without Performance Obligations,* which were released together with the IPSASB's ED 72 *Transfer Expenses* in 2020.

BC7. Some of the resulting modifications to IPSAS 47 are relatively minor, to ensure coherence within the suite of PBE Standards (e.g., aligning terminology with other PBE Standards) as well as to ensure the NFP context is acknowledged within PBE IPSAS 47. Additionally, Tier 2 disclosure concessions were included that align with similar disclosure concessions in NZ IFRS 15 and PBE IPSAS 23. The more substantive modifications considered or made by the NZASB in developing PBE IPSAS 47 are outlined in paragraphs BC8–BC24.

Binding arrangement revenue deferral for resources received for an entity's internal use

BC8. Based on the compliance obligation principle for revenue transactions with a binding arrangement, a liability (deferred revenue) is recognised for any unsatisfied compliance obligations in respect of the inflow of resources

[9] A PBE Standard developed using IPSAS 48 as a starting point has been exposed for comment at the same time as ED PBE IPSAS 47.

received from the revenue transaction – refer to paragraph 81–86 and Application Guidance paragraphs AG59–AG62. This includes scenarios where resources are received to be used internally.

BC9. The NZASB has carefully considered the implications of deferring revenue, and thereby recognising a liability, for resources received for an entity's internal use under PBE IPSAS 47. Per the PBE Conceptual Framework, a liability is defined as a present obligation of the entity to transfer resources as a result of past events. Furthermore, the PBE Conceptual Framework indicates that the transfer must be to another party and as such an entity cannot be obligated to itself. The primary concern with deferring revenue for resources received for an entity's internal use is that there may not be a transfer of resources to another party.

BC10. The NZASB noted that IPSAS 47 allows for the deferral of revenue in cases where resources are received for internal use, provided that the explicit or implicit consequences of non-compliance within the binding arrangement would necessitate the transfer of resources to another party. A liability exists for the resource recipient as it has received resources but has not yet earned revenue by fulfilling its compliance obligations in terms of the requirements in the binding arrangement. When consequences of non-compliance involve a transfer of resources (e.g. return of resources or penalty payment), such scenarios give rise to an unavoidable transfer of resources to another party.

BC11. To illustrate this concept, the NZASB added Illustrative Example 24A to PBE IPSAS 47. This example captures a scenario when resources are received for internal use and the resource recipient has not yet fulfilled the compliance obligation promised in a binding arrangement. The resulting consequences of non-compliance necessitate an unavoidable transfer of resources to another party.

NFP enhancements

BC12. The IPSASB developed IPSAS 47 for application by public sector entities. During the drafting process, the NZASB made several enhancements to ensure that PBE IPSAS 47 is suitable for the NFP sector. This involved modifying wording or sentences to be applicable to both public sector and NFP entities. Specific enhancements included:

(a) adding guidance for NFP entities that closely mirrors the NFP guidance in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*, Implementation Guidance Appendix B. This guidance, included in Implementation Guidance Appendix G, has been developed to align with the principles in PBE IPSAS 47 and focuses on bequests, cash donations and fundraising, goods and services in-kind, and uncompleted obligations;

(b) aligning Application Guidance paragraph AG47, sub-paragraphs (a)-(e) with paragraph 52(b) of PBE IPSAS 23. Paragraph AG47 includes examples of binding arrangements that may require a PBE to use resources internally. The list of examples in this paragraph is equivalent to the list of examples in paragraph 52(b) of IPSAS 23, and in PBE IPSAS 23, the NZASB modified the wording of some of these examples for consistency with the New Zealand environment. Similarly, Application Guidance paragraph AG146, sub-paragraph (f) has been added. This paragraph provides examples of services in-kind received by PBEs, encompassing both voluntary and obligatory contributions. IPSAS 23 contains an equivalent list of examples in paragraph 100. To modify PBE IPSAS 23 for NFP application, the NFP example was added in as sub-paragraph (f). As it remains relevant and provides an NFP context, the NZASB have included it in PBE IPSAS 47;

(c) adding an illustrative Statement of Comprehensive Revenue and Expenses for a NFP entity as part of the consequential amendments to PBE IPSAS 1 *Presentation of Financial Reports* to address the gap in the consequential amendments to IPSAS 1 in IPSAS 47. The Implementation Guidance in PBE IPSAS 1 includes illustrative financial statement structures for both public sector and NFP sectors. However, the consequential amendments to IPSAS 1 in IPSAS 47 only provides an illustrative statement of comprehensive revenue and expenses for a public sector entity.

(d) adjustments to some of the Illustrative Examples to include an NFP entity as one of the parties to the transaction.

Allocation of the transaction price in transactions without binding arrangements

BC13. For transactions with binding arrangements, PBE IPSAS 47 paragraphs 133–140 outline the requirements to allocate the transaction consideration to different compliance obligations. These requirements generally align with those in NZ IFRS 15.

BC14. On the contrary, the IPSAS 47 requirements for transactions <u>without</u> binding arrangements do not offer clear guidance on how to allocate resources received when the resource recipient has multiple obligations to fulfil. The NZASB determined that it may be appropriate to apply the binding arrangement requirements to transactions without binding arrangements when allocating the transaction price to multiple obligations.

BC15. To help PBEs address complexities in these scenarios, the NZASB added a reference in Implementation Guidance Section C3 to the binding arrangement requirements for allocating the transaction price. This provides entities with an approach to proportion and allocate revenue across multiple obligations. Additionally, Illustrative Example 35 was expanded to include Case A1 as a scenario without a binding arrangement, demonstrating how the binding arrangement requirements for allocating transaction prices can also be applied in such cases.

Valuation of non-cash considerations at fair value

BC16. IPSAS 47 refers to 'current value' in the context of measuring assets and revenues where a non-cash consideration is received (for example, in the case of donated property, plant and equipment). The term 'current value' in IPSAS 47 covers both fair value and current operational value (COV) measurement principles in IPSAS Standards. For example, when an entity receives property, plant and equipment in a 'non-exchange transaction', IPSAS 47 would require the entity to recognise the asset and related revenue at the asset's current value, which would be its fair value if the asset is held for financial capacity, or COV if the asset is held for operational capacity – consistent with the principles in IPSAS 46 Measurement and IPSAS 45 Property, Plant and Equipment. However, the concept of COV (and IPSAS 45 and IPSAS 46) is currently not included in PBE Standards.

BC17. Furthermore, PBE IPSAS 17 *Property, Plant and Equipment* paragraph 27 states that where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. Similar requirements exist in other PBE Standards for assets acquired in a non-exchange transaction. 'Fair value' is defined in PBE Standards as *the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction*. 'Current value' is not a defined term in PBE Standards. The PBE Conceptual Framework provides a broad description of 'current value measurement' in paragraph 7.22 and lists current value measurement bases in paragraph 7.23, but that list does not include fair value and instead refers to several other measurement bases (e.g. value in use).

BC18. The NZASB decided that referring to 'current value' in PBE IPSAS 47 could cause confusion regarding how revenue from the receipt of an asset in a non-cash transaction should be measured. To align PBE IPSAS 47 with current PBE Standards, 'current value' has been replaced by 'fair value'. This change has been applied in paragraphs 30, 129-131, AG32, AG105 and IE305. If IPSAS 45 and IPSAS 46 are included in PBE Standards at a future date, the NZASB will review these modifications.

BC19. Additionally, Application Guidance paragraph AG154 has been updated to align with current PBE Standards for non-cash considerations. Sub-paragraph (b) in IPSAS 47 paragraph AG154 refers to 'deemed cost' for the initial measurement of property, plant, and equipment from a non-exchange transaction, but PBE IPSAS 17 requires these items to be measured at fair value instead. Consequently, the NZASB included property, plant and equipment under sub-paragraph (a), which uses fair value as the criteria, and removed sub-paragraph (b).

Appropriations

BC20. The NZASB discussed the requirements relating to appropriations in IPSAS 47 (contained in the Implementation Guidance Section B.3. as demonstrated in Illustrative Example 7). It was noted in Implementation Guidance Section B.3 that appropriations are defined in IPSAS 24 *Presentation of Budget Information in Financial Statements* as an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds for purposes specified by the legislature or similar authority. IPSAS 24 does not form part of PBE Standards.

BC21. The NZASB decided to:

(a) remove the reference to the appropriations definition in IPSAS 24 from PBE IPSAS 47 Implementation Guidance Section B.3.

(b) align the description of appropriations with the New Zealand legislative framework by rewording the description as "an authorisation granted by a legislative body (i.e. the enabling authority) to ~~allocate funds~~ <u>incur expenses or capital expenditure</u> for the purpose specified by the legislature or similar authority" – i.e. removing the struck-through words and adding the underlined words.

BC22. Additionally, the NZASB noted that appropriations are not defined in the PBE Standards but the interpretation of the term should be consistent with its assigned meaning under New Zealand legislation, specifically per the Public Finance Act 1989.

Inventory received in-kind

BC23. PBE IPSAS 23 (paragraph 97.1) has a New Zealand-specific exemption that allows PBEs not to recognise inventory received in-kind on the date of acquisition (and therefore not to recognise revenue on the date of acquisition), if it is not practicable to determine fair value because the costs of doing so would outweigh the benefits. This was a change that the NZASB made to PBE IPSAS 23 in response to concerns from New Zealand stakeholders. Those concerns were raised by entities operating charity shops that receive high-volume, low-value second-hand goods for resale. These entities highlighted the practical difficulties and significant costs of measuring such goods at fair value at the time of acquisition and queried the usefulness of doing so. In developing PBE IPSAS 47, the NZASB considered this recognition exemption to still be relevant and has added Application Guidance paragraph AG166.1 to permit this recognition exemption in PBE IPSAS 47.

Removal of Illustrative Example 45 and Illustrative Example 47

BC24. In aligning PBE IPSAS 47 with the specific requirements and context of the New Zealand PBE environment, the NZASB has decided to remove Illustrative Examples 45 and 47 from PBE IPSAS 47. Illustrative Example 45 pertains to a transitional provision under IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*. Illustrative Example 47, demonstrates disclosures under IPSAS 18 *Segment Reporting*. Neither IPSAS 33 nor IPSAS 18 forms part of the PBE Standards. These amendments ensure that the illustrative examples included in PBE IPSAS 47 are directly applicable and relevant to the New Zealand context.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 47.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a "capital transfer"?

It depends. Public benefit entities receive resources through various types of transfer transactions, in the form of cash or another asset, and which may arise with or without a binding arrangement. An entity should consider whether there are any specifications related to the transfer of the physical asset to determine whether it meets the definition of a "capital transfer" in paragraph 4 of this Standard.

A transfer of a physical asset is a "capital transfer" if the entity received this transfer within a binding arrangement and is required by the binding arrangement to use that physical asset to acquire or construct another non-financial asset that will be controlled by the entity. A transfer of a physical asset which only has a requirement to be used or operated in a specific manner would not meet the definition of a "capital transfer"; rather, such a transfer of a physical asset would constitute a "transfer" as defined in paragraph 4. An entity should clearly consider the specific terms within the binding arrangement.

Section B: Identifying the Revenue Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public benefit entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of revenue to ensure fair presentation of such transactions.

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 11–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

How should an entity consider the impact of appropriations on its revenue transactions?

An appropriation is an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority. Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the resource provider (which would be similar in substance to a unilateral termination clause without penalty).

Appropriations on their own do not prove nor refute the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable right to those resources, before the appropriation process is completed. In such cases, the arrangement is enforceable and may be a binding arrangement.

In some jurisdictions, the authorisation 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 resource provider;

(b) The exercise of that authority has occurred. In essence, a decision has been made by the resource 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 completion of an appropriation process.

The enabling authority together with the exercise of that authority may be sufficient for an entity to conclude that it has an enforceable right to resources in the arrangement to require the resource provider to transfer the resources or, if the resource provider fails to do so, to impose consequences on the resource provider prior to the completion of the appropriation process. In such a circumstance, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when a resource provider has lost its discretion to avoid proceeding with the transfer of resources. In such a circumstance, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 4. If it meets the definition, the entity accounts for revenue arising from the binding arrangement in accordance with paragraphs 56–147.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with PBE IPSAS 41 *Financial Instruments*. For example, an entity that completely satisfied its compliance obligation and has an unconditional right to consideration would partially impair and derecognise its receivable asset if it intends to only enforce a portion of its right (and does not expect to reverse this decision), but would fully impair and derecognise the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognised in accordance with PBE IPSAS 41.

Section C: Revenue from Transactions without Binding Arrangements

C.1 Recognition of Revenue from Various Types of Taxes

What is the taxable event that triggers the recognition of revenue from various types of taxes levied in a jurisdiction?

An entity recognises revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 18–25), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 29).

Resources arising from taxes that are presently controlled by the entity as a result of past events meet the definition of an asset. An entity should assess the taxation law in its own jurisdiction to determine the past event for these transactions (i.e., the taxable event), and consider all relevant facts and circumstances to determine when tax revenue should be recognised. The following table provides a non-exhaustive list of examples of tax revenues, and the likely taxable event (unless otherwise specified in laws and/or regulations):

Revenue Type	Likely Taxable Event
Tax on personal income earned within a jurisdiction.	The earning of assessable income by taxpayers in the current reporting period.
Tax imposed on businesses for the value added from sales of goods or services.	The sale of value-added goods or services (i.e., undertaking of taxable activity) during the reporting period.
Tax imposed on sales of goods or services.	The sale of taxable goods or services during the reporting period.
Duty on imports of specific goods to ensure that domestically produced goods are cheaper in the retail market.	The movement of goods subject to duties across the customs boundary during the reporting period.
Duty on taxable property.	The death of the person owning taxable property.
Tax on assessed property within a jurisdiction.	The passing of the date on which the taxes are levied, or the period for which the tax is levied (if the tax is levied on a periodic basis).

C.2 Measurement of Revenue from Various Types of Taxes

How does an entity measure the amount of revenue it has earned from its tax transactions without binding arrangements?

In many circumstances, the taxation period will not coincide with the entity's reporting period. An entity may also receive estimated tax payments in instalments on a periodic basis before the taxable amount is finalised, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognise the inflow of resources (or the right to an inflow of resources) as an asset, and recognise revenue earned in the current reporting period, to the extent that it can be reliably measured. The best estimate is consistent with the most likely amount (see paragraphs 45–50).

To reliably measure the asset and revenue, the entity should consider all relevant data from various sources to arrive at its best estimate. Paragraph 46 describes factors that an entity should take into account in its estimation models. Sources of relevant data and inputs for an entity's estimation model include, but are not limited to: historical data (e.g., collection history and other taxation statistics), observable and other phenomena (e.g., forecasts, economic and banking statistics, instalments), and the use of experts.

Estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognised prospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

C.3 Allocation of the Transaction Consideration

The transaction consideration in binding arrangements should be allocated to different compliance obligations on a relative stand-alone value basis to depict the consideration to which the entity expects to be entitled upon satisfying the compliance obligation. To navigate complexities that may arise when dealing with multiple obligations in transactions without binding arrangements, the same methods for allocating transaction consideration outlined for binding arrangements in paragraphs 133–140 may also be applied.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements can vary substantially. Some binding arrangements may require the entity, as the resource recipient, to achieve a specific holistic service objective, while other binding arrangements may impose requirements related to specific goods and services. How does an entity determine the individual compliance obligations in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

A binding arrangement has at least one compliance obligation. A compliance obligation, as defined in paragraph 4, is a unit of account to determine distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of revenue. An entity must use professional judgement as it applies paragraphs 68–77 to determine the individual compliance obligations in its binding arrangement.

An entity should first identify all of the promises in its binding arrangement to use resources in a specified manner. Promises are goods or services promised in a binding arrangement with a resource provider, and may be explicit or implicit in the binding arrangement. A promise may require the entity to use resources internally for a good or service, or to transfer a good or service to an external party or parties (i.e., the purchaser or third-party beneficiary). A thorough assessment is necessary to identify all promises of goods or services in the binding arrangement (paragraphs 71–72).

An entity then considers each identified promise to determine if a promise is itself a compliance obligation, or whether it should be grouped with other promises to be a compliance obligation. In other words, a compliance obligation is a unit of account that represents a distinct promise or distinct group of promises to which recognition criteria and measurement concepts are applied (paragraph 73). A good or service (or a bundle of goods or services) promised in a binding arrangement is distinct if both criteria are met:

(a) The promised good or service (or a bundle of goods or services) is *capable of being distinct*; and

(b) The promise is *distinct within the context of the binding arrangement*.

Whether a good or service is *capable of being distinct* is generally based on the characteristics of the good or service (see paragraph 75 for additional guidance). However, determining whether the promise is *distinct within the context of the binding arrangement* will require judgement to ensure that the grouping of promises, and thus identification of individual compliance obligations, will meaningfully represent the nature of the entity's transaction with the resource provider and provide a useful depiction of the entity's performance (see paragraph 76 for additional guidance).

Any distinct promise, or distinct group of promises, identified by the entity through this analysis would be an individual compliance obligation.

In cases where multiple parties are involved in the arrangement, the entity will also need to consider whether the nature of its promise in a compliance obligation indicates that the entity is a principal or agent (in accordance with paragraphs AG117–AG125).

D.2 Satisfaction of Compliance Obligations: Methods of Measuring Progress

When an entity satisfies a compliance obligation over time, how does it determine a measure of progress that depicts the entity's performance to satisfy its compliance obligation?

Methods of measuring progress include output methods and input methods (see paragraphs AG86–AG95). After the entity identifies its compliance obligations in its binding arrangement, an entity shall consider the nature of the entity's promise and the specific terms of the binding arrangement to determine the appropriate method of measuring progress.

An entity may first consider all observable and available information associated with satisfying the compliance obligation. This information would be useful for all parties in the binding arrangement to confirm whether the terms of the binding arrangement are being met, and may be explicitly required in the binding arrangement. Observable and available information includes, but is not limited to:

(a) The performance of specified activities;

(b) The incurrence of eligible expenditures;

(c) The requirement to track progress towards achieving outlined milestones;

(d) The production or delivery of specific quantities of goods or services; and

(e) The volume of resources consumed (e.g., labour, materials, machine hours, etc.).

Some types of information are output methods (as they are based on the outputs and outcomes from the satisfaction of the compliance obligation), while other types of information are input methods (as they are based on the entity's efforts or inputs into the satisfaction of the compliance obligation).

The entity should use professional judgement to determine what information, and thus method of measuring progress, most faithfully depicts the entity's performance towards complete satisfaction of the compliance obligation. In making this assessment, the entity should also consider which method of measuring progress:

(a) Better reflects the nature and intent of the entity's promise in the binding arrangement;

(b) More clearly captures the relationship with, and communicates the progress toward, the satisfaction of the compliance obligation;

(c) Uses information that is more reliable and directly observable;

(d) Reflects all relevant performance associated with satisfying the compliance obligation; and

(e) Provides benefits that outweigh the costs of obtaining and tracking the necessary information.

There may be situations where resources are passed through a series of entities before being received by the ultimate resource recipient. In these situations, where the entity is one of multiple parties involved in the arrangement, the entity will need to consider whether the nature of its promise and satisfaction of its compliance obligation depends on satisfaction by other parties in the binding arrangement, thereby informing revenue recognition as a principal or agent.

D.3 Satisfaction of Compliance Obligations: Measuring Progress for Capital Transfers

Public benefit entities often receive capital transfers for multi-year capital projects. These projects generally include multiple stages of completion and deliverables. Are different principles required to measure an entity's progress on capital transfers?

No. Capital transfers, which arise from transactions with binding arrangements, typically include substantial detail about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). As such, these binding arrangements typically entail a large range of available information related to the inputs and outputs of the transaction. For example, the binding arrangement may include specific detailed activities related to the construction, such as clearing the site, building foundations and framing, and pouring concrete. However, the application of the accounting principles for capital transfers is consistent with the accounting for other revenue transactions with binding arrangements. The entity must first identify the individual compliance obligations in the binding arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The entity shall apply the accounting guidance in paragraphs 98–104 and paragraphs AG86–AG95 to consider all observable and available information. The use of professional judgement is crucial in determining what information, and thus method of measuring progress, most faithfully depicts the entity's progress to fully satisfy the compliance obligation. An entity should also consider revenue recognition independently from the timing of the receipt of resources from the resource provider.

D.4 Allocation Based on Stand-Alone Values

An entity is required to allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated. How should a public benefit entity determine the suitable method for estimating the stand-alone value of a good or service?

To estimate stand-alone value, an entity shall first consider all reasonably available information (including, but not limited to, reasonably available data points, entity-specific factors, information about the resource provider or class of resource provider, and the effects of market considerations where relevant).

Based on the reasonably available information, the entity shall determine which method for estimating the stand-alone value most faithfully represents the value of the goods or services promised in the binding arrangement. Paragraph 139 includes examples of suitable methods for estimating the stand-alone value and is not a prescriptive list.

The most suitable method will depend on the quality and type of information available to the entity. For example, the adjusted market assessment approach may be more suitable when the binding arrangement promises goods or services that are readily available in the market, as the price that other entities in the market would be willing to pay may provide a proxy for the value of those goods or services in the binding arrangement. However, the expected cost approach may be more suitable when the binding arrangement promises goods or services that are unique to the entity or the binding arrangement, or which are not readily available in the market. In such cases, the entity's expected costs of satisfying a compliance obligation may provide a more useful estimation of the value of the goods or services in the binding arrangement.

The entity shall be comprehensive in its assessment to maximise the use of observable inputs and be consistent in its application of estimation methods to similar circumstances.

Paragraph 139 also notes that the entity may incorporate a margin in its estimation approach, if appropriate. This may occur if the public benefit entity has engaged in a revenue transaction that is exchange-type in nature.

Section E: Multi-Year Arrangements

E.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognise revenue from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (i.e., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the applicable accounting model to reflect the substance of the transaction. The entity shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset in accordance with paragraphs 18–25, and carefully consider revenue recognition independently from the timing of funding when applying paragraph 29 (if without a binding arrangement) or paragraphs 87-104 (if with a binding arrangement). The entity may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG57.

Section F: Subsequent Measurement

F.1 Subsequent Measurement for Non-Contractual Receivables

How should an entity subsequently account for receivables from revenue transactions arising outside of contracts?

An entity may recognise a contractual receivable (i.e., a receivable asset that arises from a contract) or a non-contractual receivable. A non-contractual receivable is a receivable asset that does not arise from a contract, such as a binding arrangement that is not a contract or a revenue transaction that is not a binding arrangement (e.g., taxes and other statutory receivables).

After initial recognition, a contractual receivable, which meets the definition of a financial asset per PBE IPSAS 28 *Financial Instruments: Presentation*, is subsequently measured by applying PBE IPSAS 41.

A non-contractual receivable does not strictly meet the definition of a financial asset because it does not arise from a contract. While non-contractual receivables and contractual receivables arise from different types of arrangements, they are consistent in substance and risk exposure, and non-contractual receivables should be subsequently measured by applying PBE IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying PBE IPSAS 41 principles by analogy, the entity should use judgement to consider the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue "contract by analogy" for which it has a receivable (e.g., legislation, payment terms, etc.). To determine whether its non-contractual receivable meets the criteria in paragraph 40 of PBE IPSAS 41 to be subsequently measured at amortised cost, the entity should consider whether it holds the receivable to collect expected cash flows (in lieu of contractual cash flows) which represent its right to consideration in the transaction. If met, the entity should consider inputs into its impairment analysis under PBE IPSAS 41 accordingly to ensure it appropriately reflects the economic substance of the receivable, including but not limited to the passage of time before the consideration is collectable (i.e., maturity period) and any receivable amounts the entity no longer expects to collect (i.e., expected credit losses). If the criteria in paragraph 40 of PBE IPSAS 41 are not met, the entity would subsequently measure the non-contractual receivable at fair value in accordance with paragraph 31 of this Standard.

Section G: New Zealand Not-for-Profit Guidance

This guidance accompanies, but is not part of, PBE IPSAS 47.

G1. This Appendix provides New Zealand implementation guidance for not-for-profit entities with the following types of transactions:

(a) Bequests.

(b) Cash donations and fundraising.

(c) Goods and services in-kind.

(d) Uncompleted obligation

Bequests

Application Guidance Paragraphs AG161–AG163

G2. A bequest or legacy is a transfer of value or assets made under the provisions of a deceased person's will. (An endowment can be made prior to death. Similar issues will often arise with respect to accounting for endowments.)

G3. There are different types of bequests, including the following:

(a) Specific: Specific bequests may be gifts of a fixed sum of money or a particular asset. These bequests are paid after all claims against the estate have been met and before the residual beneficiaries are paid.

(b) Percentage of estate: A gift that is stated as a percentage of the entire estate.

(c) Residual: These bequests are paid after specific bequests, taxes and expenses have been paid. A partial distribution may be made once the residual interest is finalised, pending realisation of all the assets in the estate.

(d) Contingent (or conditional): These bequests are contingent on a future event such as the death of a primary beneficiary, or the death(s) of surviving heir(s).

(e) Deferred (also referred to as Life Interest): A bequest is left to a relative or friend (the life tenant) for their benefit during their lifetime. This can be in the form of a house or income from a trust fund. After the life tenant's death, the residual interest in the asset passes to the final beneficiary, such as a NFP entity. For example:

(i) *Property life interest*: A house is left to a relative/friend (the life tenant) to live in for the remainder of their lifetime. Upon the life tenant's death, the house or the proceeds from the sale of the house go to the NFP entity as the final beneficiary.

(ii) *Trust fund with life interest*: The residue of an estate is left in a trust fund, with the trust income (e.g. interest or dividends) paid to the life tenant during their lifetime. Upon the life tenant's death, the capital (or a specified percentage of it) is distributed to the NFP entity as the final beneficiary.

(iii) *Trust fund with discretionary access to capital*; Similar to (ii), but in this case, the trustees have discretion to use the capital if required to provide an adequate standard of living to the life tenant. Upon the life tenant's death, any remaining capital (or a percentage of it) is distributed to the NFP entity as the final beneficiary.

G4. PBE IPSAS 47 does not explicitly state whether a bequest may be the subject of a binding arrangement. The definition of a bequest in PBE IPSAS 47 (the transfer of resources according to the provisions of a deceased person's will) suggests that it is unlikely to involve a binding arrangement. However, each bequest should be evaluated based on its specific terms and conditions. This evaluation determines whether both parties (i.e., the entity as the resource recipient and the deceased person's estate or trust as the resource provider) have enforceable rights and obligations. The presence of enforceable rights and obligations indicates whether the transaction constitutes a binding arrangement. This, in turn, affects the recognition and measurement of revenue.

G5. The recognition of an asset for the receipt of benefits from a bequest depends on – (1) the entity's ability to demonstrate control of the resources embodying future economic benefits or service potential as a result of a past event, (2) the probability of future economic benefits or service potential flowing to the entity, and (3) if the resources can be measured reliably. Control arises when the entity has an enforceable claim to the resources, which could arise on the death of the testator or the granting of probate, as determined by jurisdictional laws and regulations. However, if claims challenging the will are made, or if the court is required to interpret the will, distribution is delayed until these issues are resolved, impacting the probability of an inflow of resources as well as the entity's control of the resources. Similarly, if a beneficiary has a "life interest" in an asset, or the right to use an asset or receive revenue from it for a set period (e.g., 20 years or until remarriage), the entity's claim on the remaining assets may only be enforceable after these interests expire. The entity must evaluate whether the claim to the resources of the deceased estate is enforceable, gives rise to probable future economic benefits and can be reliably measured before recognising the bequest as an asset and revenue.

G6. Table A below illustrates the treatment of some common bequest scenarios. These scenarios are illustrative only – they do not address all possible variations, including situations where the terms of the binding arrangement are breached or the obligation is not fulfilled. An entity must consider the specific facts of its own situation. In all cases it is assumed that the person making the bequest has died and the entity has been notified of the bequest by the executor or trustee.

TABLE A: ACCOUNTING TREATMENT OF SOME COMMON TYPES OF BEQUEST

Type of Bequest	**Is the bequest expected to be a binding arrangement?**	**Accounting Treatment by the NFP Entity**
1. Bequest of a percentage of an estate without specific terms relating to the use of the funds (i.e. no enforceable obligations exist for the entity).	No. Since the terms of the bequest do not impose any enforceable obligations on the NFP entity, the entity does not have both an enforceable right and an enforceable obligation, and therefore the bequest is not a binding arrangement.	If the bequest is without a binding arrangement, recognise revenue when the bequest is received or receivable per the requirements of transactions without binding arrangement in paragraphs 18 - 25. The entity recognises this inflow of resources as an asset if it presently controls the resources as a result of past

Type of Bequest	Is the bequest expected to be a binding arrangement?	Accounting Treatment by the NFP Entity
		events, and the value of the asset can be measured reliably.
2. Bequest restricted for specific purposes WITHOUT a condition to return unspent funds or funds spent for a purpose other than the purpose specified in the bequest.	Unlikely to be a binding arrangement. A restriction on the use of funds alone does not necessarily create enforceable rights and obligations for both parties. In the absence of enforceable consequences, such as a requirement to return unspent funds or funds spent outside the specified purpose, it is unlikely that the resource recipient has an enforceable obligation. However, each arrangement should be assessed based on its specific terms to determine whether enforceable rights and obligations exist for both parties.	If a binding arrangement exists, recognise revenue when each compliance obligation is satisfied. If the bequest is without a binding arrangement, recognise revenue upon recognising the asset, unless an enforceable obligation exists. Then revenue should be recognised when the obligation is satisfied.
3. Bequest restricted for specific purposes WITH conditions requiring return of unspent funds or funds that were not used for the purposes specified in the bequest.	Likely to be a binding arrangement. When a bequest includes conditions requiring the return of unspent funds to the estate or trustee, it is expected that both the resource provider and the resource recipient have enforceable rights and enforceable obligations and therefore a binding arrangement may exist. However, each arrangement should be assessed based on its specific terms to determine whether enforceable rights and obligations exist for both parties.	If a binding arrangement exists, recognise revenue when the compliance obligations are satisfied (e.g., project milestones completed). Recognise a binding arrangement liability for funds received that have not yet been spent.
4. Life interest bequest where a beneficiary has lifetime use before final transfer to the NFP entity (e.g. a house that a surviving family member can use (but not sell)	Depends. Each arrangement needs to be considered based on its own terms to determine if it results in both parties having enforceable rights and enforceable obligations.	If a binding arrangement exists, identify the compliance obligations and recognise revenue as these compliance obligations are fulfilled. In cases where there is no binding arrangement, provided that the amount (e.g. the value of the residual estate to

Type of Bequest	Is the bequest expected to be a binding arrangement?	Accounting Treatment by the NFP Entity
until that family member's death, at which point the NFP has full rights to the residual estate).		be transferred to the NFP after the beneficiary dies) can be reliably measured and no further obligations exist, recognise revenue and record an asset (such as a receivable) at the transaction consideration when there is an enforceable claim and the asset is controlled.
5. Bequest held in a perpetual trust not controlled by the NFP entity (e.g. a trust that is managed by independent trustees who must distribute all or part of the annual surplus to beneficiaries, including the NFP entity).	Unlikely to be a binding arrangement. While each arrangement should be assessed based on its specific terms, an NFP entity does not typically have enforceable rights to specific benefits from a perpetual trust it does not control. Instead, distributions are made at the discretion of independent trustees, meaning the entity does not have a binding arrangement under PBE IPSAS 47.	If a binding arrangement exists, identify the compliance obligations and recognise revenue as these compliance obligations are fulfilled. In cases where there is no binding arrangement, recognise revenue when the entity has an enforceable right to receive distributions from the trust and no further obligations exist. If an enforceable obligation exists, revenue should be recognised when the obligation is satisfied.
6. Bequest is contingent on the resolution of unresolved claims.	Unlikely to be a binding arrangement. Due to the unresolved claims, it is unlikely that the NFP entity has an enforceable right, and therefore unlikely that a binding arrangement exists.	Given the uncertainty surrounding the unresolved claims, neither revenue nor an asset should be recognised until the enforceable claim is probable and an amount can be reliably measured. The entity should also assess whether disclosure as a contingent asset may be appropriate.
7. Residual bequest (e.g. the remaining portion of an estate is allocated to the NFP entity after all specific gifts, debts, and claims against the estate have been settled) with no obligations to the entity. **The recognition of the bequest may depend on**	No. Since the terms of the bequest do not impose any enforceable obligations on the NFP entity, the entity does not have both an enforceable right and an enforceable obligation, and therefore the bequest is not a binding arrangement.	If the bequest is without a binding arrangement, recognise revenue when the bequest is received or receivable per the requirements of transactions without binding arrangement in paragraphs 18 - 25. The key consideration in both scenarios (i.e. residual amount is determined or uncertain) is whether the entity has control over the resources and whether the value of the inflow can be measured reliably; if these criteria are met, the

Type of Bequest	Is the bequest expected to be a binding arrangement?	Accounting Treatment by the NFP Entity
whether the residual amount is determined or uncertain (i.e. unresolved claims may exist against the estate).		entity recognises the inflow as an asset and revenue resulting from past events. Also refer to scenario 1 and 6 above which elaborates on the accounting treatment for a bequest where the amount is determined or uncertain.

G7. The above discussion has considered the initial recognition of bequeathed assets. Changes in the subsequent measurement of bequeathed assets from one reporting date to the next would be accounted for in accordance with the relevant PBE Standards.

Cash Donations and Fundraising

Application Guidance paragraphs AG164–AG167

G8. NFP entities employ a variety of methods of fundraising. Some of the methods of fundraising employed by NFP entities are described in Table B below.

TABLE B: COMMON FUNDRAISING METHODS

Fundraising method	
In-house fundraising	Fundraising conducted by the entity itself. The entity may not be able to separately identify fundraising costs from the costs of its other activities.
Fundraising by a service provider (the fundraiser)	A fundraiser, which may or may not be an entity owned by the entity, may be used to collect funds. The fundraiser may pass the gross amount collected to the entity and then receive a set fee in return for their services. Alternatively, the fundraiser may deduct expenses or charges before transferring the money to the entity.
Sales of goods and services	Goods and services may be sold by another entity in the name of a NFP. The entity (i.e. the NFP) may receive a percentage of sales or a percentage of profit.
Concerts and similar events	A fundraising activity, such as a concert, may be organised by a third party with net proceeds going to the entity.
Pledges	Pledges are typically unenforceable undertakings to transfer cash or other assets to the entity.
Sales by the entity	An entity may purchase goods which are then sold in the normal course of operations. Alternatively, those goods may be used as prizes in an auction or a raffle.

G9. Given the diverse methods of fundraising, entities should describe their fundraising methods and disclose the accounting policies used to recognise fundraising revenue and related expenses, emphasising whether the transactions are with or without binding arrangements. Entities are required to disclose the accounting policies used that will help users understand the financial report (PBE IPSAS 1 Presentation of Financial Reports paragraph 132).

G10. Fundraising may be subject to enforceable obligations depending on the type of fundraising. General-purpose fundraising is less likely to attract enforceable obligations, while donations for specific projects (e.g., to a local conservation group for it to reconstruct an ecologically damaged area) may be subject to enforceable obligations. Under PBE IPSAS 47, entities should assess whether the transactions are with or without binding arrangements and account for revenue accordingly.

In-house Fundraising

G11. PBE Standards require entities to disclose material items and limit the extent to which revenue can be offset by related expenses (PBE IPSAS 1 paragraphs 48–50 and 106–107). PBE IPSAS 47 reinforces these requirements, emphasising the importance of transparent reporting to demonstrate accountability to donors.

Fundraising by a Service Provider (the fundraiser)

G12. The fundraiser may be engaged to conduct fundraising activities on behalf of a NFP entity. These arrangements often resemble an agency relationship, where the fundraiser is authorised to act on behalf of the NFP entity. To determine whether the gross or net funds raised by the fundraiser should be recognised as revenue, the NFP entity must assess the principal vs agent requirements outlined in PBE IPSAS 47 Application Guidance paragraphs AG117–AG125.

G13. If the arrangement with a fundraiser constitutes an agency relationship (i.e., the fundraiser acts as the agent, and the NFP entity is the principal), the NFP entity recognises gross revenue when it obtains control of the funds raised (i.e. when the funds are received or receivable). The NFP entity also recognises fundraising expenses, including fees or commissions paid to the fundraiser. The fundraiser, acting as the agent, would recognise only the fee, commission, or net consideration retained as revenue (paragraph AG122).

Sales of Goods or Services and hosting concerts or similar events

G14. If an entity does not control the goods or services sold by other entities for its benefit, or the activities organised by third parties (such as a concert for the entity's benefit), it typically does not have control of the funds raised until they are received. In such cases, the NFP entity generally does not have an enforceable right, and the transaction may be concluded to be without a binding arrangement. Revenue is recognised upon receipt (i.e. when the asset recognition requirements are met), unless enforceable rights or obligations exist that justify earlier recognition.

G15. In some cases, an agency relationship may exist. For further details on revenue recognition in such scenarios, refer to paragraph G12 – G13 above.

Pledges

G16. Pledges are not normally recognised as revenue (or assets) until cash is received, as they are typically non-binding and cancellable. Pledges may meet the definition of a contingent asset and may require disclosure in the notes.

Sales by the Entity

G17. If an entity purchases goods for resale, or as prizes in an auction or a raffle, the gross revenue raised and the cost of those goods purchased must be presented in the statement of comprehensive revenue and expense. Net revenue raised may be disclosed in the notes. The timing of revenue recognition should reflect whether a binding arrangement exists and comply with the requirements of PBE IPSAS 47.

Goods and Services In-Kind

Application Guidance paragraphs AG143-AG149 and AG164-AG167

G18. Entities may receive donations of goods and services, either with or without a binding arrangement. In accordance with PBE IPSAS 47, entities must evaluate whether enforceable rights and enforceable obligations exist for both parties, along with at least one compliance obligation. This evaluation determines the recognition and measurement requirements for the donated goods or services based on whether a binding arrangement exists. Each arrangement must be assessed individually, taking into account its specific terms and conditions.

G19. Donated goods used by the entity itself will normally be items of property, plant and equipment that have been transferred to the entity, for example, donated office equipment. In most cases estimations of fair value (such as the current market price of the donated item) can be made, allowing recognition at the time of acquisition when the definition and recognition criteria of an asset are met.

G20. Charity shops generally receive donations of high-volume, low-value second-hand goods for resale (for example, used clothing, books and toys). In these circumstances, it is often not practicable to measure reliably the fair value of the goods at the date of acquisition. If it is impracticable to reliably measure the fair value of goods meeting the definition of inventories in PBE IPSAS 12 at the date of acquisition—because the costs of measuring the fair value are expected to exceed the benefits—an entity recognises revenue when the donated goods are sold.

G21. Certain entities engage in the redistribution of donated goods, such as food banks which collect and distribute donated food. Generally, the recipient does not have an enforceable right to receive the food, nor does the provider have an enforceable obligation to deliver the food. Therefore, generally, the transaction is considered to be without a binding arrangement. When determining the fair value of the donated goods, entities may use estimation techniques, such as averaging the value of standard food parcels created from the goods received. For goods with a limited remaining life or that are damaged, their fair value at the date of acquisition and reporting should reflect these conditions. If it is impracticable to reliably measure the fair value of goods meeting the definition of inventories in PBE IPSAS 12 at the date of acquisition—because the costs of measuring the fair value are expected to exceed the benefits—revenue is not recognised at the date of acquisition. In such cases, if the donated goods are redistributed free of charge, no transaction is recognised in the financial statements.

G22. The disclosure requirements in this Standard require entities to make disclosures about the nature and type of donated goods received. These disclosure requirements apply to all donated goods, even if they are not recognised at the time of acquisition. For example, a charity shop will need to disclose its accounting policy for the recognition of donated goods received, and the information about the nature and type of donated goods. Similarly, an entity that distributes donated goods free of charge would disclose information about its distribution activities even where the financial statements do not include any monetary value. This information is required to help users of the financial statements understand the extent of support received by the entity through donations of goods and the risks to the entity of not receiving these donations in the future.

G23. Services in-kind are likely to be hours of work provided by volunteers for which the parties generally do not have both enforceable rights and enforceable obligations. The volunteers are likely to be carrying out work as directed by the entity. Application Guidance paragraphs AG143–AG149 offer additional details on accounting for services in-kind. Paragraphs 170(f), 175, and 176 outline the disclosure requirements.

Uncompleted Service Arrangements

G24. It is not uncommon for entities to enter into service delivery arrangements where the entity must provide services to a designated population as required by that population during a specified period. Such arrangements are particularly common in the health and social services sectors. Under PBE IPSAS 47, entities must determine whether these arrangements are with or without binding arrangements, as this affects both the accounting treatment and the timing of revenue recognition.

G25. Service delivery arrangements often span multiple financial years, particularly when the financial years of the funder and the service provider differ. Such situations can create challenges in revenue recognition and reporting. Implementation Guidance Section E: Multi-Year Funding, provides guidance on how to account for arrangements that involve the provision of resources over multiple years to ensure users of financial statements understand the financial implications of such agreements. Entities may be required to disclose details about the nature, timing and amount of these uncompleted arrangements as per paragraphs 167–192.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 47.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in PBE IPSAS 47 *Revenue*, to particular revenue transactions based on the given facts. 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 presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying PBE IPSAS 47.

Identify the Revenue Transaction

IE2. Examples 1–2 illustrate the requirements in paragraphs 9–16 of PBE IPSAS 47 on the determination of whether an entity has entered into a revenue transaction with or without a binding arrangement.

Example 1 – Transaction Arose from an Arrangement that is Not Binding

Case A – No Obligations, No Specified Time Period, and No Reporting to the Government

IE3. A social development entity (the Entity) receives funding of CU5[10] million from a government body (the Government) to fund its employment programmes. The agreement requires funding to be spent on programmes with the goal of improving employment in the region. If the Entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from the Government. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programmes, nor how the Government will receive or verify information on how the funds were spent.

IE4. The Entity concludes that the funding agreement is not a binding arrangement in accordance with paragraph 4 of PBE IPSAS 47. Although the Entity has an enforceable right to resources from the Government if it incurs eligible expenditures, it does not have an enforceable obligation because the Government does not have the ability to enforce how the Entity uses funds in a specific way (e.g., specific programmes) 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, the entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue from a transaction without a binding arrangement.

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 change the Entity's conclusion that it has an enforceable right in the funding agreement, but does not have an enforceable obligation. This is because the Government is not able to confirm if and when the Entity spends the funds as stated in the agreement. As a result, this arrangement is not binding and the Entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue.

10 In these examples, monetary amounts are denominated in 'currency units' (CU).

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 also specifies how the Entity is to report its spending to the Government, and that any misused or unused funds are to be returned to the Government. The 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 reasonably relate to improving employment in the region. The Entity concludes that it has both an enforceable right and an enforceable obligation. This is because the Government is able to confirm and enforce its requirement for the Entity to spend the funds on improving employment in the region within the five-year period. The Entity shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Example 2 – Research Grant Arising from a Binding Arrangement

IE7. A research lab (the Lab) enters into an arrangement and receives CU10 million from a government agency (the 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 Lab; if these milestones are not met, the 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 Lab to transfer the findings or any resulting intellectual property to the Government. The Lab is also able to ensure that payment is received from the Government for research work planned or completed.

IE8. Based on these terms, the Lab has concluded that the agreement is a binding arrangement in accordance with paragraph 4 of PBE IPSAS 47, as it has an enforceable obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to consideration for conducting this research project. The Lab shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Enforceability

IE9. Examples 3–7 illustrate the requirements in paragraphs AG14–AG25 of PBE IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

Example 3 – Enforceability by Legal Means

IE10. Pursuant to a ministerial directive, a government agency (the Agency) signed a memorandum of understanding with a local government (Government L), for Government L to receive funds to build a government office building. The memorandum by itself is not binding in the court of law, does not impose a refund obligation for Government L in the event that it fails to perform under the terms of the memorandum, nor does it refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the Agency and Government L relied upon it during their contract negotiations. Government L commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Government L has reported to the Agency on its first month of work, and the Agency has accepted the work performed to date.

IE11. The parties have relied on the memorandum of understanding, as follows:

(a) Government L has performed construction services in accordance with the terms of the memorandum; and

(b) The work performed to date has been reported to and accepted by the Agency.

IE12. Thus, the memorandum is enforceable by law in the parties' jurisdiction based on the concept of promissory estoppel. That is, the Agency has the right to use its court of law to ensure that Government L satisfies the promises in the memorandum or seek redress should they not be satisfied. Similarly, Government L has the right to use the court of law to enforce the receipt of funds from the Agency for work performed to date. As a result, the memorandum is considered enforceable through legal means in accordance with paragraphs AG14–AG18 of PBE IPSAS 47.

Example 4 – Arrangement does not include an Enforceable Obligation

IE13. The central government (the Government) transfers 200 hectares of land in a major city to a university (the University) to establish a university campus. The arrangement 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 compensation.

IE14. The University recognises the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The University considers paragraphs AG14–AG25 of PBE IPSAS 47 and concludes that the arrangement does not include an enforceable obligation because there is no mechanism to ensure that the University uses the land for a campus, and thus is not a binding arrangement. The University recognises revenue when it recognises the land as an asset in accordance with PBE IPSAS 17, *Property, Plant, and Equipment*.

Example 5 – Enforceable Right to Revenue of Aid Agency

Case A – Right to Receive Resources is not Enforceable

IE15. Green-Aid Agency (Agency) is an intergovernmental organisation which relies on annual funding from a group of governments to deliver on its initiatives. The Agency has a signed agreement with the government of a sovereign state (State) which specifies the percentage of the Agency's approved budget that the State will fund in 20X2. The agreement indicates that the funds received from the State can only be used to incur eligible expenditures, per the approved 20X2 budget. If funds are not used to incur eligible expenses (e.g., misused or unused), such funds must be repaid to the State at the end of its financial year on December 31, 20X2. The Agency's budget is approved in the preceding October.

IE16. As a result of the terms and conditions in the signed arrangement, the State is able to enforce the appropriate use and any repayment of funds provided to the Agency. The Agency therefore has an enforceable obligation to use resources received from the State for the eligible expenditures approved in the budget year, which meets the definition of a liability.

IE17. Based on past experience, the State is very unlikely to pay what it owes, either during the financial year or at any future time, and the Agency is not able to force the State to pay any amounts owed. Therefore, the Agency does not have an enforceable right to receive an inflow of resources from the State and the arrangement is not binding. The Agency will only recognise an asset when it receives and controls the inflow of resources from the State.

Case B – Right to Receive Resources is Enforceable

IE18. The same facts as Case A apply to Case B, except the Agency is able to prevent the State from participating in the Agency's voting processes if it does not transfer resources in accordance with the signed arrangement after the budget is approved. In this scenario, the Agency has the ability to enforce its right to receive resources (i.e., an enforceable right). As a result, each party in the arrangement has both an enforceable right and an enforceable obligation, and the arrangement is thus a binding arrangement.

Example 6 – Obligation in a Revenue Arrangement is not in Substance Enforceable

IE19. National Park Department of Country A (the Department) enters into an arrangement and receives a transfer of CU500,000 from the Bilateral Aid Agency of Country B (the Agency). The arrangement specifies that the transferred resources are required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, and returned to the Agency if the money is not used for the stated purpose. 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 the Department has received a transfer of this type from this Agency. In prior years, the transferred resources have not been used as specified; rather, they have been used to acquire additional land adjacent to national parks for expansion purposes. The Department has not conducted any rehabilitation of deforested areas in the past thirteen years. The Agency is aware of the previous breaches of the agreement terms.

IE20. The Department analyses the transaction and concludes that, although the terms of the agreement are enforceable, such terms do not in substance hold the Department accountable to using the transfer as specified. This is because the Agency has not previously enforced the requirements of its transfers, and given no indication that it ever would. Thus, the arrangement includes the form but not the substance of an enforceable obligation (see paragraph AG25), and the arrangement would not be a binding arrangement. Therefore, the Department recognises an increase in an asset (for the transfer received) and revenue.

Example 7 – Revenue Subject to Completion of the Appropriations Process

IE21. The central government (Government C) and local government (Government L) both have a financial year end of 30 June. On 15 September, 20X1, Government C enters into a two-year arrangement with Government L to transfer CU15 million (CU10 million in the 20X2 financial year and CU5 million in the 20X3 financial year) to Government L, to be used to reduce air pollution in accordance with Government C's policy. The arrangement includes a term that it is subject to the completion of the appropriation process.

IE22. Parliament completes the appropriation process for CU10 million on 31 October 20X1, and Government C transfers the resources on 15 November 20X1. The appropriation for CU5 million is not completed on 31 October 20X1 but is considered at a later date as part of the appropriation process for 20X3. Once resources are transferred, Government L is required to use the resources to reduce air pollution or be required by law to repay, which constitutes an enforceable obligation.

Case A – Requirement to Complete the Appropriation Process has Substance

IE23. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires Government C to fund such initiatives. The arrangement is clear that the funding is subject to the completion of the appropriation process, which is not certain, and that the amount may be reduced. Government L applies paragraphs AG14–AG25 of PBE IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE24. Government L considers substance over form to determine the effect of this term. Government L concludes that it is not able to require Government C to transfer resources nor impose consequences of not doing so. Consequently, the term has substance, and Government L does not have an enforceable right to resources until the appropriation process is completed for each year's amount. The enforceable right to resources would meet the definition of an asset on 31 October 20X1 when the appropriation process is completed, and the arrangement now meets the definition of a binding arrangement. However, Government L would not recognise an asset or liability in its statement of financial position as at 31 October 20X1 because the binding arrangement is wholly unsatisfied.

IE25. On 15 November 20X1, Government L recognises an asset of CU10 million, and an equivalent liability, when it receives the resources. It does not recognise an asset for the CU5 million, as the appropriation process for the 20X3 amount has not been completed. Government L considers whether to disclose the CU5 million as a contingent asset in accordance with paragraph 24 in the 20X2 notes to its general purpose financial statements. Government L will assess the accounting implications of the authorisation process in 20X3 for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

IE26. Authorising legislation requires Government C to invest in measures to reduce air pollution, and the arrangement is a firm commitment by Government C to meet its legislative obligations by investing in specific measures, set out in the arrangement, to be undertaken by Government L. Government L applies paragraphs AG14–AG25 of PBE IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE27. Government L considers substance over form to determine the effect of this term. Government L concludes that it has an enforceable right prior to the completion of the appropriation process because the legislation to invest in measures to reduce air pollution provides enforceability through equivalent means. Consequently, the term does not have substance. Thus, Government L has an enforceable right to resources on 15 September 20X1, which would meet the definition of an asset and the arrangement meets the definition of a binding arrangement. However, Government L would not recognise an asset or liability in its statement of financial position as at 15 September 20X1 because the binding arrangement is wholly unsatisfied.

IE28. On 15 November 20X1, Government L recognises an asset of CU10 million, and an equivalent liability. It does not recognise an asset for the CU5 million. Government L will assess the accounting implications of the authorisation process in 20X3 for the remaining CU5 million.

Revenue from Transactions without Binding Arrangements

Example 35 Case A1 also demonstrates the recognition of revenue from transactions without binding arrangements.

Example 8 – Advance Receipts of Income Tax

IE29. The Government 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.

IE30. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year because the taxable event is the earning of income during the taxation period, which has not commenced. The Government recognises an increase in an asset (cash in bank) and an increase in a liability (advance receipts) in accordance with paragraph 44 of PBE IPSAS 47.

Revenue from Transactions with Binding Arrangements

Criteria to Apply the Binding Arrangement Model

IE31. Examples 9–12 illustrate the requirements in paragraphs 56–61 of PBE IPSAS 47 on whether to use the binding arrangement model. In addition, the following requirements are illustrated in these examples:

(a) The interaction of paragraph 146 of PBE IPSAS 47 with paragraphs 109 and 115 of PBE IPSAS 47 on estimating variable consideration (Examples 10–11); and

(b) Paragraph AG180 of PBE IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 12).

Example 9 – Collectability of the Consideration

IE32. A government social housing agency (the Agency) has a portfolio of properties that are rented at 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 programme. 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 programme allows the Residents to pay the price over a period of 20 years, but the payments may cease once Residents have reached the age to begin collecting their superannuation, and the future payments will depend on the Resident's level of income at that time. At 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 Agency for the remaining balance of the promised consideration.

IE33. As part of this rent-to-own programme, the Agency 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 Agency, 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 Agency 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.

IE34. In assessing whether the binding arrangement meets the criteria in paragraph 56 of PBE IPSAS 47, the Agency concludes that the criterion in paragraph 56(e) of PBE IPSAS 47 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 Agency observes that the Resident may only pay up to CU180,000 based on the terms of the programme.

IE35. Because the criteria in paragraph 56 of PBE IPSAS 47 are not all met, the Agency applies paragraphs 58 and 81–86 of PBE IPSAS 47 to determine the accounting for the non-refundable deposit of CU5,000. The Agency observes that the events described in paragraph 58(a) have occurred—that is, the Agency has transferred control of the building to the Resident, and the Agency 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 58, the Agency recognises the non-refundable CU5,000 payment as revenue upon receipt.

Example 10 – Consideration is not the Stated Price—Implicit Price Concession

IE36. 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.

IE37. When assessing whether the criterion in paragraph 56(e) of PBE IPSAS 47 is met, the Agency also considers paragraphs 109 and 115(b) of PBE IPSAS 47. 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 consideration is not CU1 million and the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE38. 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 56(e) of PBE IPSAS 47 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 56 of PBE IPSAS 47 are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction consideration of CU400,000, in accordance with paragraphs 56–147 in PBE IPSAS 47.

Example 11 – Compelled Revenue Transaction—Implicit Price Concession

IE39. A government hospital (the Hospital) provides medical services to an uninsured tourist (the patient) in the emergency room. The Hospital is required by law to provide medical services to all emergency room patients, and patients are required to pay, and the arrival of a patient in the emergency room constitutes the initiation of a binding arrangement. 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 Hospital can determine whether the patient is committed to satisfying its obligation to pay for services received in exchange for the medical services provided. Consequently, the binding arrangement does not meet all of the criteria in paragraph 56 of PBE IPSAS 47 and, in accordance with paragraph 58 of PBE IPSAS 47, the Hospital will continue to assess its conclusion based on updated facts and circumstances.

IE40. 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, 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.

IE41. The Hospital considers paragraphs 109 and 115(b) of PBE IPSAS 47. 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 consideration 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.

IE42. In accordance with paragraph 56(e) of PBE IPSAS 47, 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 (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 56 of PBE IPSAS 47 are also met. Consequently, the Hospital accounts for the binding arrangement with the patient, at a transaction consideration of CU1,000, in accordance with the requirements in PBE IPSAS 47.

Example 12 – Reassessing the Criteria to Apply the Binding Arrangement Model

IE43. A Government's Minerals Division (the Minerals Division) issues a permit to mine minerals to a private sector mining company (the Company) in exchange for a royalty based on the amount of minerals extracted. At inception, the binding arrangement meets all the criteria in paragraph 56 of PBE IPSAS 47 and the Minerals Division accounts for the binding arrangement with the Company in accordance with paragraphs 56–147 in PBE IPSAS 47. The Minerals Division recognises revenue when the Company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG180 of PBE IPSAS 47.

IE44. Throughout the first year of the binding arrangement, the Company provides quarterly extraction reports and pays within the agreed-upon period.

IE45. During the second year of the binding arrangement, the Company continues to extract minerals from the property, but its financial condition declines. The Company's current access to credit and available cash on hand are limited. The Minerals Division continues to recognise revenue on the basis of the Company's extraction throughout the second year. The 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 Minerals Division accounts for any impairment of the existing receivable in accordance with PBE IPSAS 41 *Financial Instruments*.

IE46. During the third year of the binding arrangement, the Company continues to use the permit issued by the Minerals Division. However, the Minerals Division learns that the Company has lost access to credit and its major customers, and thus the Company's ability to pay significantly deteriorates. The Minerals Division therefore concludes that it is unlikely that the 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 57 of PBE IPSAS 47, the Minerals Division reassesses the criteria in paragraph 56 of PBE IPSAS 47 and determines that they are not met because it is no longer probable that the Minerals Division will collect the consideration to which it will be entitled. Accordingly, the Minerals Division does not recognise any further revenue associated with the Company's future usage of its permit. The Minerals Division accounts for any impairment of the existing receivable in accordance with PBE IPSAS 41.

Modifications

IE47. Examples 13–15 illustrate the requirements in paragraphs 63–66 of PBE IPSAS 47 on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 68–77 of PBE IPSAS 47 on identifying compliance obligations (Example 15);

(b) Paragraphs 119–121 of PBE IPSAS 47 on constraining estimates of variable consideration (Examples 14 and 15); and

(c) Paragraphs 144–147 of PBE IPSAS 47 on changes in the transaction consideration (Example 14).

Example 13 – Modification of a Binding Arrangement for Goods

IE48. An intergovernmental organisation (the Organisation) promises to provide 1.2 million textbooks to a central government (the Government) for CU12 million (CU10 per textbook). The textbooks are transferred to the Government over a six-month period. The CU12 million is funded by the Organisation's donors. The Organisation transfers control of each textbook at a point in time. After the Organisation has transferred control of 600,000 textbooks to the Government, the binding arrangement is modified to require the delivery of an additional 300,000 textbooks (a total of 1.5 million identical textbooks) to the Government. The additional 300,000 textbooks were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Value

IE49. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 textbooks is an additional CU2.85 million or CU9.5 per textbook. The pricing for the additional textbooks reflects the stand-alone value of the textbooks at the time of the modification to the binding arrangement and the additional textbooks are distinct (in accordance with paragraph 73 of PBE IPSAS 47) from the original textbooks.

IE50. In accordance with paragraph 65 of PBE IPSAS 47, the modification to a binding arrangement for the additional 300,000 textbooks is, in effect, a new and separate binding arrangement for future textbooks that does not affect the accounting for the existing binding arrangement. The Organisation recognises revenue of CU10 per textbook for the 1.2 million textbooks in the original binding arrangement and CU9.5 per textbook for the 300,000 textbooks in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Value

IE51. During the process of negotiating the purchase of an additional 300,000 textbooks, the parties initially agree on a price of CU8.0 per textbook. However, the Government and the donors discover that the initial 600,000 textbooks provided by the Organisation contained minor misprints. The Organisation promises a partial credit of CU1.5 per textbook to compensate the donors for the poor quality of those textbooks. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 textbooks) into the amount that the Organisation will require for the additional 300,000 textbooks. Consequently, the modification to the binding arrangement specifies that the price of the additional 300,000 textbooks is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 textbooks of CU2.4 million, or CU8.0 per textbook, less the credit of CU900,000.

IE52. At the time of modification, the Organisation recognises the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of revenue for the initial 600,000 textbooks transferred. In accounting for the sale of the additional 300,000 textbooks, the Organisation determines that the negotiated price of CU8.0 per product does not reflect the stand-alone value of the additional textbooks. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 65 of PBE IPSAS 47 to be accounted for as a separate binding arrangement. Because the remaining textbooks to be delivered are distinct from those already transferred, the Organisation applies the requirements in paragraph 66(a) of PBE IPSAS 47 and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE53. Consequently, the amount recognised as revenue for each of the remaining textbooks is a blended price of CU9.33 {[(CU10 × 600,000 textbooks not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 textbooks to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining textbooks}.

Example 14 – Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE54. On 1 July 20X0, the Ministry of Defence (the Ministry) promises to transfer two distinct used military products, a light-armoured vehicle and spare parts, to a foreign government (Government F). The light-armoured vehicle is transferred to Government F at the inception of the binding arrangement and spare parts are transferred on March 31, 20X1. The consideration promised by Government F includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Ministry includes its estimate of variable consideration in the transaction consideration because it concludes that it is highly probable that a significant reversal in cumulative revenue recognised will not occur.

IE55. The transaction consideration of CU1.2 million is allocated equally to the compliance obligation for the light-armoured vehicle and the compliance obligation for spare parts. This is because both products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that requires allocation of the variable consideration to one but not both of the compliance obligations.

IE56. When the light-armoured vehicle was transferred to Government F at the inception of the binding arrangement, the Ministry recognises revenue of CU600,000.

IE57. On 30 November 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to Government F on 30 June 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone value of ammunition. The stand-alone value of ammunition is the same as the stand-alone values of the light-armoured vehicle and spare parts.

IE58. The Ministry 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-armoured vehicle, which had transferred to Government F before the modification, and the promised consideration for the ammunition does not represent its stand-alone value. Consequently, in accordance with paragraph 66(a) of PBE IPSAS 47, the consideration to be allocated to the remaining compliance obligations comprises the consideration that had been allocated to the compliance 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 compliance obligation for spare parts and the compliance obligation for ammunition (i.e., CU450,000 is allocated to each compliance obligation).

IE59. After the modification but before the delivery of spare parts and ammunition, the Ministry 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 Ministry concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is highly probable that a significant reversal in cumulative revenue recognised 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 66(a) of PBE IPSAS 47, the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 147 of PBE IPSAS 47, the change in the transaction consideration is allocated to the compliance obligations for the light-armoured vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Ministry recognises revenue of CU20,000 for the light-armoured vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to Government F before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining compliance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 66(a) of PBE IPSAS 47 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.

IE60. The Ministry then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the compliance obligations for spare parts and ammunition. This is because the products have the same stand-alone values, and the variable consideration does not meet the criteria in paragraph 142 that require allocation of the variable consideration to one but not both of the compliance obligations. Consequently, the amount of the transaction consideration allocated to the compliance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE61. On 31 March 20X1, the spare parts are transferred to Government F and the Ministry recognises revenue of CU460,000. On 30 June 20X1, the ammunition is transferred to the foreign government and the Ministry recognises revenue of CU460,000.

Example 15 – Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

IE62. A Government Agency (the Agency) enters into a binding arrangement to construct a residential building for the Ministry 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. The Agency accounts for the promised bundle of goods and services as a single compliance obligation satisfied over time in accordance with paragraph AG72(b) of PBE IPSAS 47 because Housing controls the building during construction. At the inception of the binding arrangement, the Agency expects the following:

	CU
Transaction consideration	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE63. At the inception of the binding arrangement, The Agency excludes the CU2 million bonus from the transaction consideration because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Completion of the building is highly susceptible to factors outside the Agency's influence, including weather and regulatory approvals. In addition, the Agency has limited experience with similar types of binding arrangements.

IE64. The Agency determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the compliance obligation. By the end of the first year, the Agency has satisfied 60 percent of its compliance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). The Agency reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 119–121 of PBE IPSAS 47. Consequently, the cumulative revenue and costs recognised for the first year are as follows:

	CU
Revenue	6,000,000
Costs	5.400,000
Surplus	600,000

IE65. 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, the Agency concludes that it is highly probable that including the bonus in the transaction consideration will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with paragraph 119 of PBE IPSAS 47 and includes the CU2 million in the transaction consideration. In assessing the modification to a binding arrangement, the Agency evaluates paragraph 73(b) of PBE IPSAS 47 and concludes (on the basis of the factors in paragraph 76 of PBE IPSAS 47) 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 compliance obligation.

IE66. Consequently, the Agency accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 66(b) of PBE IPSAS 47). The Agency updates its measure of progress and estimates that it has satisfied 52.9 percent of its compliance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). The Agency recognises additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction consideration) – CU6 million revenue recognised to date] at the date of the modification as a cumulative catch-up adjustment in the Statement of Comprehensive Revenue and Expenses.

Identifying Compliance Obligations in a Binding Arrangement

IE67. Examples 16–19 illustrate the requirements in paragraphs 68–77 of PBE IPSAS 47 on identifying compliance obligations.

Example 16 – Determining Whether Goods or Services are Distinct

Case A – Distinct Goods or Services

IE68. A government shared IT services agency (the Agency) enters into a binding arrangement with a central government (the 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.

IE69. The Agency assesses the goods and services promised to the Government to determine which goods and services are distinct in accordance with paragraph 73 of PBE IPSAS 47. 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 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 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 73(a) of PBE IPSAS 47 is met.

IE70. The Agency also considers the principle and the factors in paragraph 76 of PBE IPSAS 47 and determines that the promise to transfer each good and service to the Government is separately identifiable from each of the other promises (thus the criterion in paragraph 73(b) of PBE IPSAS 47 is met). In reaching this determination, the Agency considers that, although it integrates the software into the Government's system, the installation services do not significantly affect the Government's ability to use and generate economic benefits or service potential from the software licence because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the Government's ability to use, and benefit or receive service potential from, the software license during the licence period. The Agency further observes that none of the promised goods or services significantly modify or customise 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 satisfy its promise to transfer the initial software licence independently from its promise to subsequently provide the installation service, software updates or technical support.

IE71. On the basis of this assessment, the Agency identifies four compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The software licence;

(b) An installation service;

(c) Software updates; and

(d) Technical support.

IE72. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each of the compliance obligations for the installation service, software updates and technical support is satisfied at a point in time or over time. The Agency also assesses the nature of the Agency's promise to transfer the software licence in accordance with paragraph AG173 of PBE IPSAS 47.

Case B – Significant Customisation

IE73. 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 customised to add significant new functionality to enable the software to interface with other customised software applications used by the Government. The customised installation service can be provided by other entities.

IE74. The Agency assesses the goods and services promised to the Government to determine which goods and services are distinct in accordance with paragraph 73 of PBE IPSAS 47. The Agency first assesses whether the criterion in paragraph 73(a) has been met. For the same reasons as in Case A, the Agency determines that the software licence, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph 73(b) has been met by evaluating the principle and the factors in paragraph 76 of PBE IPSAS 47. The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised installation service as specified in the binding arrangement. In other words, the Agency is using the licence and the customised installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the binding arrangement (see paragraph 76(a) of PBE IPSAS 47). The software is significantly modified and customised by the service (see paragraph 76(b) of PBE IPSAS 47). Consequently, the Agency determines that the promise to transfer the licence is not separately identifiable from the customised installation service and, therefore, the criterion in paragraph 73(b) of PBE IPSAS 47 is not met. Thus, the software licence and the customised installation service are not distinct.

IE75. 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.

IE76. On the basis of this assessment, the Agency identifies three compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) Software customisation (which comprises the licence for the software and the customised installation service);

(b) Software updates; and

(c) Technical support.

IE77. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case C – Promises are Separately Identifiable (Installation)

IE78. A shared IT services agency (the Agency) enters into a binding arrangement with a central government office (Government) to provide a piece of equipment and installation services. The equipment is operational without any customisation or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE79. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 73 of PBE IPSAS 47 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 73(a) of PBE IPSAS 47. The 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 Government also can generate economic benefits or service potential from the installation services together with other resources that the Government will already have obtained from the Agency (i.e., the equipment).

IE80. 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 73(b) of PBE IPSAS 47). The Agency considers the principle and the factors in paragraph 76 of PBE IPSAS 47 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 76 of PBE IPSAS 47 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 satisfy 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 customise or significantly modify the equipment.

(c) Although the 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 satisfy 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.

IE81. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) Installation services.

IE82. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case D – Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE83. Assume the same facts as in Case C, except that the Government is required to use the Agency's installation services in the binding arrangement.

IE84. 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 Government. Although the 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 73(a) of PBE IPSAS 47) 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 73(b) of PBE IPSAS 47). The Agency's analysis in this regard is consistent with that in Case C.

Case E – Promises are Separately Identifiable (Consumables)

IE85. A shared IT services agency (the Agency) enters into a binding arrangement with a central government office (Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customisation or modification) and to provide specialised 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.

IE86. The Agency determines that the 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 75 of PBE IPSAS 47, because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The 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 Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47.

IE87. 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 73(b) of PBE IPSAS 47. 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 customised 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 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 satisfy each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to satisfy its promise to transfer the equipment, even if the Government did not purchase any consumables, and would be able to satisfy its promise to provide the consumables, even if the Government acquired the equipment separately.

IE88. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) The consumables.

IE89. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Example 17 – Goods and Services are not Distinct

Case A – Significant Integration Service: Hospital Construction

IE90. A health facility agency (the Agency) enters into a binding arrangement with the Ministry of Health to build a hospital. The Agency 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.

IE91. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47. That is, the Ministry 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 the Agency regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Ministry 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.

IE92. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 73(b) of PBE IPSAS 47 (on the basis of the factors in paragraph 76 of PBE IPSAS 47). This is evidenced by the fact that the Agency provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Ministry of Health has entered into a binding arrangement.

IE93. Because the criterion in paragraph 73(b) of PBE IPSAS 47 is not met, the goods and services are not distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case B – Significant Integration Service: Road Trains Production and Delivery

IE94. A government organisation (the Organisation) enters into a binding arrangement with a local government (Government L) that will result in the delivery of multiple highly complex, specialised road trains. The terms of the binding arrangement require the Organisation to establish a manufacturing process in order to produce the road trains. The specifications are unique to Government L, based on a custom design that is owned by Government L and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Organisation 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.

IE95. The Organisation 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 73(a) of PBE IPSAS 47 because Government L 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.

IE96. The Organisation observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which Government L has entered into a binding arrangement in accordance with Government L's specifications. The Organisation considers that it is responsible for the 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). 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 73(b) and paragraph 76 of PBE IPSAS 47. In this case, the manufacturing process provided by the Organisation is specific to its binding arrangement with Government L. In addition, the nature of the Organisation's performance and, in particular, the significant integration service of the various activities means that a change in one of the Organisation's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialised road trains such that the Organisation's activities are highly interdependent and highly interrelated.

IE97. Because the criterion in paragraph 73(b) of PBE IPSAS 47 is not met, the goods and services that will be provided by the Organisation are not distinct. The Organisation accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case C – Significant Integration Service: Emergency Response

IE98. An Emergency Aid Agency (the Agency) enters into an arrangement with an International Development Organisation (the Organisation) and receives CU1 million to provide emergency flood response services to the citizens in an affected region which did not have sufficient resources to respond to the crisis. The Agency has applied paragraphs 9–16 of PBE IPSAS 47 and determined that the arrangement is a binding arrangement. Under the terms of the binding arrangement, the Agency is required to acquire blankets and shelter sheets, and to purchase various types of equipment such as water pumps, reservoirs, buckets, and brooms to provide cleanup services. The terms of the binding arrangement stated that the Agency may also need to engage in other activities or incur eligible expenditures that are not explicitly listed but are necessary to meet the overall objective of providing emergency flood response services to affected citizens. The Agency noted that, in the context of the binding arrangement, the transport and distribution of the purchased blankets and shelter sheets are not explicitly listed in the binding arrangement but would qualify as an eligible expenditure that is necessary and therefore is an implicit promised service.

IE99. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47 because the citizens in the affected region are able to generate economic benefits or service potential from the supplies and cleanup services either on their own or together with other resources readily available.

IE100. However, the Agency determines that the promised goods and services to be transferred to the citizens are not separately identifiable in accordance with paragraph 73(b) of PBE IPSAS 47 on the basis of the factors in paragraph 76 of PBE IPSAS 47. This is because the nature of its promise in the binding arrangement is to meet the immediate emergency needs and provide prompt humanitarian assistance to citizens in the affected region. The Agency notes that in order to meet the terms of the binding arrangement, it is required to provide a significant service of integrating the goods or services (the inputs) to provide emergency flood response services (the combined output).

IE101. Because the criterion in paragraph 73(b) of PBE IPSAS 47 is not met, the goods and services are not distinct. Rather, the combined bundle of goods and services in the binding arrangement is distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Example 18 – Transfer of Resources to Another Level of Government with Compliance Obligations

IE102. The Ministry of Transport (Ministry T) provides CU10 million to a government railway agency (Agency R) 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 modernisation, 40 percent for a new railroad or tramway system, and 20 percent for the purchase of rolling stock. Under the terms of the binding arrangement, the money can only be used as specified and any misused or unused amounts must be repaid to Ministry T. Furthermore, Agency R is required to include a note in its audited general purpose financial statements detailing how the transferred resources were spent. The binding arrangement requires the resources to be spent as specified in the current year or be returned to Ministry T.

IE103. Agency R recognises the inflow of CU10 million as an asset, and an equivalent liability because it is required to transfer resources back to Ministry T if it does not satisfy the compliance obligations in the binding arrangement.

IE104. Agency R notes that various goods and services not explicitly stated in the binding arrangement are required to satisfy the binding arrangement. For example, certain goods and services would be required to modernise the existing railroad and tramway system, while other goods and services would be required to build a new railroad or tramway system. Thus, Agency R conducts a thorough assessment to identify all goods and services inherently promised in the binding arrangement. It then determines that the promised goods and services are capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47 because Ministry T can generate economic benefits or service potential from each good and service on its own or together with other readily available resources.

IE105. Considering the context of the binding arrangement, Agency R observes that the nature of its promise in the binding arrangement is to use the resources in three individually specific ways rather than in a combined manner:

(a) The goods and services to modernise the existing railroad and tramway system represent a single combined output: the modernisation of the existing system. Agency R provides a significant service of integrating these goods and services into a single output that is separately identifiable from other goods or services in the binding arrangement. Similarly, the goods and services to build a new railroad or tramway system represent a single combined output, and the purchase of rolling stock represents a single output; and

(b) Agency R is not significantly integrating these three combined outputs, nor do the outputs significantly modify, customise, or depend on each other. Rather, Agency R is responsible for generating three separately identifiable outputs in accordance with paragraphs 73(b) and 76 of PBE IPSAS 47: the modernisation work, the new system, and the rolling stock.

IE106. Because both criteria in paragraph 73 of PBE IPSAS 47 are met, the binding arrangement contains three separate compliance obligations;

(a) The compliance obligation to use CU4 million for modernising the existing railroad and tramway system;

(b) The compliance obligation to use CU4 million for a new railroad or tramway system; and

(c) The compliance obligation to use CU2 million for purchasing rolling stock.

IE107. Agency R reduces the liability as or when it satisfies the compliance obligations, and recognises revenue in the statement of comprehensive revenue and expenses of the reporting period.

Example 19 – Explicit and Implicit Promises in a Binding Arrangement

IE108. 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 (the 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

IE109. 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 a 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.

IE110. 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 73 of PBE IPSAS 47. The Government determines that both the product and the maintenance services meet the criterion in paragraph 73(a) of PBE IPSAS 47. 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).

IE111. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph 73(b) of PBE IPSAS 47 on the basis of the principle and the factors in paragraph 76 of PBE IPSAS 47). 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 customise the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to satisfy each of the promises in the binding arrangement independently of its efforts to satisfy 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 76 of PBE IPSAS 47, 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 concludes that there are two compliance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

Case B—Implicit Promise of Service

IE112. 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 programme to urban areas. During the negotiations on this new urban programme, 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.

IE113. 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 71 of PBE IPSAS 47. Consequently, the Government assesses whether the promise of maintenance services is a compliance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate compliance obligations.

Case C—Services are not a Promised Service

IE114. 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 a modem from the Telecom for no additional promised consideration.

IE115. 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 71 of PBE IPSAS 47, 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 compliance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

IE116. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with the 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.

Recognition of Revenue Transactions with a Binding Arrangement

Satisfied Over Time or at a Point in Time

IE117. Examples 20–22 illustrate the requirements in paragraphs 92–93 and 95 of PBE IPSAS 47 on the satisfaction of compliance obligations over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 92(a) of PBE IPSAS 47 for transactions with compliance obligations to use resources for goods or services internally on when an entity simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. Additionally, paragraphs 83 and AG62 require liability recognition if another party can enforce their rights and impose a non-compliance consequence that necessitates an incremental transfer of resources. This example demonstrates these requirements for a revenue transaction involving resources received for an entity's internal use, (Example 20 Case A);

(b) Paragraphs 95(a) of PBE IPSAS 47 for transactions with compliance obligations to transfer goods or services to another party on when a purchaser or third-party beneficiary simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case B, and Example 21);

(c) Paragraphs 95(c) and 96–97 of PBE IPSAS 47 on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to receive consideration for performance completed to date (Examples 21–22); and

(d) Paragraph 97 of PBE IPSAS 47 on compliance obligations satisfied at a point in time (Example 22).

Example 20 – Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential

Case A – Satisfaction of Compliance Obligation to Use Resources for Goods or Services Internally

IE118. A local government (the Government) enters into a binding arrangement to provide CU1.2 million to a hospital (the Hospital). The Government requires the Hospital to use the CU1.2 million in the operation of its medical imaging department. The binding arrangement specifies that the funds must be utilised within the next two years. The CU1.2 million will be paid to the Hospital in advance. Any amount that remains unused after this period must be returned to the Government.

IE119. The use of funds in the medical imaging department is a single compliance obligation in accordance with paragraph 68(b) of PBE IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 92(a) of PBE IPSAS 47 because the Hospital simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The Hospital recognises revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47. Unused amounts are recognised as a binding arrangement liability because the return of unused funds is unavoidable. The Government can enforce its rights and impose non-compliance consequences that require the return of funds (incremental transfer of resources to another party) in accordance with paragraph 83 and AG62 of PBE IPSAS 47.

Case B – Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party

IE120. A payroll shared service centre (the Payroll Centre) enters into a binding arrangement to provide monthly payroll processing services to a government department of Education (the Department) for one year.

IE121. The promised payroll processing services are accounted for as a single compliance obligation in accordance with paragraph 68(b) of PBE IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 95(a) of PBE IPSAS 47 because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Centre'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 Centre has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Centre's performance as the Payroll Centre performs. The Payroll Centre disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. The Payroll Centre recognises revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47.

Example 21 – Assessing Alternative Use and Right to Consideration

IE122. The Auditor-General appoints an auditor (Auditor A) on its behalf to provide financial statement audit services to a government agency (the Agency). Auditor A enters into a binding arrangement with the Agency that results in Auditor A 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. The binding arrangement requires the Agency to compensate Auditor A for its costs incurred at any point in time, with payments to be made at regular intervals.

IE123. Auditor A considers the criterion in paragraph 95(a) of PBE IPSAS 47 to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of Auditor A's performance. If Auditor A were to be unable to satisfy its compliance obligation and the Auditor-General subsequently appointed another audit firm (Auditor B) to provide the opinion, Auditor B would need to substantially re-perform the work that Auditor A had completed to date, because Auditor B would not have the economic benefits or service potential of any work in progress performed by Auditor A. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of Auditor A's performance only when the Agency receives the audit opinion. Consequently, Auditor A concludes that the criterion in paragraph 95(a) of PBE IPSAS 47 is not met.

IE124. However, Auditor A's compliance obligation meets the criterion in paragraph 95(c) of PBE IPSAS 47 because the audit work completed to date would not have any alternative use, as it would be specific to the audit of the Agency. Thus, Auditor A has a compliance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 96 of PBE IPSAS 47, the development of the audit opinion does not create an asset with an alternative use to Auditor A because the audit relates to facts and circumstances that are specific to the Agency. Therefore, Auditor A cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 97 of PBE IPSAS 47, Auditor A has an enforceable right to receive consideration for its performance completed to date for its costs.

IE125. Consequently, Auditor A recognises revenue over time by measuring the progress towards complete satisfaction of the compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47.

Example 22 – Assessing Whether a Compliance Obligation is Satisfied at a Point in Time or Over Time

IE126. The government housing agency (Agency H) is developing multi-unit residential complexes to be sold to a Not-for-Profit entity (the NFP) as well as a variety of commercial entities. The NFP enters into a binding arrangement with Agency H 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 Consideration for Performance Completed to Date

IE127. The NFP pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Agency H fails to complete construction of the units in accordance with the binding arrangement. The remainder of the consideration is payable on completion of the binding arrangement when the NFP obtains physical possession of the units. If the NFP defaults on the binding arrangement before completion of the units, Agency H only has the right to retain the deposit.

IE128. At the inception of the binding arrangement, Agency H applies paragraph 95(c) of PBE IPSAS 47 to determine whether its promise to construct and transfer the units to the NFP is a compliance obligation satisfied over time. Agency H determines that it does not have an enforceable right to consideration for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by the NFP. Because Agency H does not have a right to consideration for work completed to date, its compliance obligation is not a compliance obligation satisfied over time in accordance with paragraph 95(c) of PBE IPSAS 47. Instead, Agency H accounts for the sale of the units as compliance obligations satisfied at a point in time in accordance with paragraph 97 of PBE IPSAS 47.

Case B – Entity has an Enforceable Right to Consideration for Performance Completed to Date

IE129. The NFP 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 Agency H from being able to direct the units to another purchaser. In addition, the NFP does not have the right to terminate the binding arrangement unless Agency H fails to perform as promised. If the NFP defaults on its obligations by failing to make the promised progress payments as and when they are due, Agency H 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 compliance obligations under the binding arrangement.

IE130. At the inception of the binding arrangement, Agency H applies paragraph 95(c) of PBE IPSAS 47 to determine whether its promise to construct and transfer the units to the NFP is a compliance obligation satisfied over time. Agency H determines that the units it constructs do not have an alternative use to Agency H because the binding arrangement precludes Agency H from transferring the specified units to another purchaser. Agency H 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.

IE131. Agency H also has a right to consideration for performance completed to date in accordance with paragraphs 97(a) of PBE IPSAS 47. This is because if the NFP were to default on its obligations, Agency H would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.

IE132. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to consideration for performance completed to date. Consequently, the criteria in paragraph 95(c) of PBE IPSAS 47 are met and Agency H has a compliance obligation that it satisfies over time. To recognise revenue for that compliance obligation satisfied over time, Agency H measures its progress towards complete satisfaction of its compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47.

IE133. In the construction of a multi-unit residential complex, Agency H may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Agency H would account for each binding arrangement separately. However, depending on the nature of the construction, Agency H'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 compliance obligations in each binding arrangement.

Case C – Entity has an Enforceable Right to Consideration for Performance Completed to Date, but Binding Arrangement can be Cancelled

IE134. The same facts as in Case B apply to Case C, except that in the event of a default by the NFP, either Agency H can require the NFP to perform as required under the binding arrangement or Agency H 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.

IE135. Notwithstanding that Agency H could cancel the binding arrangement (in which case the NFP's obligation to Agency H would be limited to transferring control of the partially completed units to Agency H and paying the penalty prescribed), Agency H has a right to consideration for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Agency H may choose to cancel the binding arrangement in the event the NFP defaults on its obligations would not affect that assessment (see paragraph AG69 of PBE IPSAS 47), provided that Public Work's rights to require the NFP 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 Compliance Obligation

IE136. Examples 23–24 illustrate the requirements in paragraphs 98–104 of PBE IPSAS 47 on measuring progress towards complete satisfaction of a compliance obligation satisfied over time. Example 24 also illustrates the requirements in paragraph AG95 of PBE IPSAS 47 on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a compliance obligation.

Example 23 – Measuring Progress when Making Goods or Services Available

IE137. A local council (the Council) 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.

IE138. The Council 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 Council concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential of the local Council's performance as it performs by making the pools available. Consequently, the Council's compliance obligation is satisfied over time in accordance with paragraph 92(a) of PBE IPSAS 47.

IE139. The Council also determines that the member of the public consumes economic benefits or service potential from the Council 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 Council concludes that the best measure of progress towards complete satisfaction of the compliance obligation over time is an output method, specifically a time-based measure, and it recognises revenue on a straight-line basis throughout the year at CU100 per month.

Example 24 – Measuring Progress for Uninstalled Materials

IE140. In November 20X2, a government department (Department A) enters into a binding arrangement with another department (Department B) to refurbish a 3-storey building and install new elevators for a total consideration of CU5 million. Department A concluded that the promised refurbishment service, including the installation of elevators, is a single compliance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Department A determines that it acts as a principal in accordance with paragraphs AG117–AG125 of PBE IPSAS 47, because it obtains control of the elevators before they are transferred to Department B.

IE141. A summary of the transaction consideration and expected costs is as follows:

	CU
Transaction consideration	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

IE142. Department A uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. Department A assesses whether the costs incurred to procure the elevators are proportionate to the Public Work's progress in satisfying the compliance obligation, in accordance with paragraph AG95 of PBE IPSAS 47. Department B 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 compliance obligation (CU4 million). Department A is not involved in designing or manufacturing the elevators.

IE143. Department A 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 AG95 of PBE IPSAS 47, Department A adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. Department A recognises revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE144. As of December 31, 20X2, Department A 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).

IE145. Consequently, at December 31, 20X2, Department A recognises the following:

	CU	
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	200,000	

(A) Revenue recognised is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction consideration – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Binding Arrangement Liability Recognition when transaction involves internal use of resources

IE145.1 Example 24A demonstrates the recognition of a binding arrangement liability when resources are received for internal use, and the consequences of non-compliance with the terms of the binding arrangement result in an unavoidable transfer of resources to another party. This example illustrates the requirements in paragraph 83 and AG62 of PBE IPSAS 47.

Example 24A – Binding Arrangement Liability Recognition due to Consequences of Non-compliance for Transactions Involving Receipt of Resources for Internal Use

IE145.2 A not-for-profit entity with a reporting date of 31 December enters into a binding arrangement with a government department to deliver in-house training to its staff during the 20X1 financial year. The training material is pre-existing, and the compliance obligation is limited to delivering the training to the staff members. The arrangement requires that the training be completed within the 20X1 financial year.

IE145.3 The government provides funding of CU100 per staff member for the entity's 150 staff members (i.e. CU15,000) at the start of the year. Revenue is recognised as training is provided to staff members. The arrangement stipulates that if training is not delivered to all 150 staff members by the end of the year, the proportion of the funding allocated for undelivered training must be transferred to a third-party organisation. This organisation will use the funds to provide equivalent training to its own staff.

IE145.4 Upon receiving the CU15,000, the entity records a binding arrangement liability, deferring revenue recognition. At this point, the entity has a present obligation due to a past event to incur an unavoidable transfer of resources to another party.

IE145.5 By 31 December 20X1, only 120 staff members have received the training, leaving 30 staff members who have not been trained. In accordance with the terms of the binding arrangement, the consequences of not delivering training to these 30 staff members is that the entity is required to transfer CU3,000 (representing CU100 per untrained staff member) to the third-party organisation.

IE145.6 As of 31 December 20X1, the Entity has an enforceable obligation due to the consequences of non-compliance in the binding arrangement. This results in an unavoidable outflow of resources to another party. Accordingly, the Entity recognises a binding arrangement liability of CU3,000 in its Statement of Financial Position.

IE145.7 This example illustrates how liabilities can be deferred under PBE IPSAS 47 when resources are received for internal use under a binding arrangement. In accordance with paragraph 83 and AG62, the deferral is based on the unavoidable transfer of resources to another party due to the consequences of non-compliance.

Measurement of Revenue Transactions with a Binding Arrangement

Variable Consideration

Example 25 – Estimating Variable Consideration

IE146. A local government (Government L) enters into a binding arrangement with the Government Transportation Agency (Transportation) to build a bridge. The promise to transfer the bridge is a compliance 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.

IE147. 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, Government L will be entitled to an incentive bonus of CU1.5 million.

IE148. Government L determines that the consideration promised in the binding arrangement includes a variable amount and estimates the amount of consideration it is entitled to in accordance with paragraphs 113–117 of PBE IPSAS 47. In determining the transaction consideration, Government L prepares a separate estimate for each element of variable consideration to which Government L will be entitled using the estimation methods described in paragraph 116 of PBE IPSAS 47:

(a) Government L 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 Government L expects to better predict the amount of consideration to which it will be entitled.

(b) Government L 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 Government L expects to better predict the amount of consideration to which it will be entitled.

IE149. Government L considers the requirements in paragraphs 119–121 of PBE IPSAS 47 on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction consideration.

The Existence of a Significant Financing Component in the Binding Arrangement

IE150. Examples 26–30 illustrate the requirements in paragraphs 123–128 of PBE IPSAS 47 on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 26:

(a) Paragraphs 119–121 of PBE IPSAS 47 on constraining estimates of variable consideration; and

(b) Paragraphs AG96–AG103 of PBE IPSAS 47 on sales with a right of return.

Example 26 – Significant Financing Component and Right of Return

IE151. 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.

IE152. 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.

IE153. The Government does not recognise 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 recognised will not occur in accordance with paragraphs 119–121 of PBE IPSAS 47. Consequently, revenue is recognised after three months when the right of return lapses.

IE154. The binding arrangement includes a significant financing component, in accordance with paragraphs 123–125 of PBE IPSAS 47. 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.

IE155. 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 AG96–AG103 of PBE IPSAS 47:

(a) When the trains are transferred to the Operator, in accordance with paragraph AG97 of PBE IPSAS 47:

Asset for right to recover trains to be returned	CU80 million[11]
Inventory	

(b) During the three-month right of return period, no interest is recognised in accordance with paragraph 128 of PBE IPSAS 47 because no binding arrangement asset or receivable has been recognised.

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[12]
Revenue	
Cost of sales	CU80 million
Asset for trains to be returned	

IE156. Until the Government receives the cash payment from the Operator, interest revenue would be recognised in accordance with PBE IPSAS 41. In determining the effective interest rate in accordance with PBE IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 27 – Withheld Payments on a Long-Term Binding Arrangement is not a Significant Financing Component

IE157. A government department (Department A) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Department A throughout the binding arrangement term of three years. The compliance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Department A' expected performance. The binding

11 This example does not consider expected costs to recover the asset.

12 The receivable recognised would be measured in accordance with PBE 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 recognised at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the resource provider throughout the binding arrangement and paid to Department A only when the building is complete.

IE158. Department A concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Department A's performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 125(c) of PBE IPSAS 47. The withholding of a specified percentage of each milestone payment is intended to protect the resource provider from Department A failing to adequately complete its compliance obligations under the binding arrangement.

Example 28 – Determining the Discount Rate

IE159. The Ministry of Communications (the Ministry) 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

IE160. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Ministry considers paragraph 127 of PBE IPSAS 47 and 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 Ministry 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).

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognised as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Ministry accounts for the receivable in accordance with PBE IPSAS 41.

Case B – Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Ministry 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 Ministry 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.

IE163. In accordance with paragraph 127 of PBE IPSAS 47, the Ministry determines the transaction consideration 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 Ministry determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Ministry recognises revenue and a loan receivable for that amount. The Ministry accounts for the loan receivable in accordance with PBE IPSAS 41.

Example 29 – Advance Payment and Assessment of Discount Rate

IE164. The central 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 central government plans to sell the surplus vehicles. To achieve this objective, the central government enters into a binding arrangement with a local government to provide the surplus vehicles in two years (i.e., the compliance 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 local government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The local government elects to pay CU4 million when the binding arrangement is signed.

IE165. The central 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 and when the central government transfers the vehicles to the local government, as well as the prevailing interest rates in the market.

IE166. 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 central government determines that, in accordance with paragraph 127 of PBE IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the central government's incremental borrowing rate.

IE167. The following journal entries illustrate how the central government would account for the significant financing component:

(a) Recognise 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 central government adjusts the promised amount of consideration (in accordance with paragraph 128 of PBE IPSAS 47) and builds up the binding arrangement liability by recognising interest on CU4 million at six percent for two years:

Interest expense	CU494,000[13]
Binding arrangement liability	CU494,000

(c) Recognise revenue for the transfer of the vehicles:

Binding arrangement liability	CU4,494,000
Revenue	CU4,494,000

Example 30 – Advance Payment

IE168. 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. The Telecom enters into a binding arrangement with a government entity that provides specialist telecommunications services (the Government Entity) to provide

[13] CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

maintenance and repair services for 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).

IE169. 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.

IE170. In assessing the requirements in paragraph 125(c) of PBE IPSAS 47, 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

IE171. Example 31 illustrates the requirements in paragraphs 129–132 of PBE IPSAS 47 on non-cash consideration, as well as the requirements in paragraph 68 of PBE IPSAS 47 on identifying compliance obligations.

Example 31 – Entitlement to Non-Cash Consideration

IE172. 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 compliance obligation in accordance with paragraph 68(b) of PBE IPSAS 47. 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).

IE173. 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 programmes once per week of production services.

IE174. The Broadcaster measures its progress towards complete satisfaction of the compliance obligation as each week of production service is complete. To determine the transaction consideration (and the amount of revenue to be recognised), the Broadcaster first considers the fair value of the right to air the popular sports programme. However, as the right to air the programme 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 consideration indirectly by reference to the stand-alone value of the production services promised to the Media Company.

Allocation Based on Stand-Alone Values

IE175. Examples 32–34 illustrate the requirements in paragraphs 133–143 of PBE IPSAS 47 on allocating the transaction consideration to compliance obligations. In addition, the following requirements are illustrated in these examples:

(a) Paragraph 116 of PBE IPSAS 47 on variable consideration (Example 34);

(b) Paragraphs AG107–AG109 of PBE IPSAS 47 on the allocation of a discount (Examples 32-33); and

(c) Paragraph AG182 of PBE IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property (Example 34).

Example 32 – Allocation Methodology

IE176. A Ministry of Defence (the Ministry) enters into a binding arrangement with another country to provide a fighter jet, specialised spare parts, and a specialised engine in exchange for CU100 million. The Ministry will satisfy the compliance obligations for the jet, spare parts, and engine at different points in time. The Ministry can provide fighter jets separately and therefore the stand-alone value is directly observable. The stand-alone values of the specialised spare parts and specialised engine are not directly observable.

IE177. Because the stand-alone values for the specialised spare parts and specialised engine are not directly observable, the Ministry must estimate them. To estimate the stand-alone values, the Ministry uses the adjusted market assessment approach for the specialised spare parts and the expected cost approach for the specialised engines. In making those estimates, the Ministry maximises the use of observable inputs (in accordance with paragraph 138 of PBE IPSAS 47). The Ministry estimates the stand-alone values as follows:

Product	**Stand-alone value**	**Method**
	CU (millions)	
Fighter jet	90	Directly observable (see paragraph 137 of PBE IPSAS 47)
Spare parts	10	Adjusted market assessment approach (see paragraph 139(a) of PBE IPSAS 47)
Specialised Engine	20	Expected cost approach (see paragraph 139(b) of PBE IPSAS 47)
Total	120	

IE178. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone values (CU120 million) exceeds the promised consideration (CU100 million). The Ministry considers whether it has observable evidence about the compliance obligation to which the entire discount belongs (in accordance with paragraph AG108 of PBE IPSAS 47) and concludes that it does not. Consequently, in accordance with paragraphs 136 and AG107 of PBE IPSAS 47, the discount is allocated proportionately across the fighter jet, spare parts and the specialised engine. The discount, and therefore the transaction consideration, is allocated as follows:

Product	**Allocated Transaction Consideration**	
	CU (millions)	
Fighter jet	75	(CU90 ÷ CU120 × CU100)
Spare parts	8	(CU10 ÷ CU120 × CU100)
Engine	17	(CU20 ÷ CU120 × CU100)

Product	Allocated Transaction Consideration
	CU (millions)
Total	100

Example 33 – Allocating a Discount

IE179. 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 values:

Product	Stand-alone value
	CU
Supply A	40
Supply B	55
Supply C	45
Total	140

IE180. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A – Allocating a Discount to One or More Compliance Obligations

IE181. 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 compliance obligations for each of the supplies at different points in time.

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of PBE IPSAS 47). 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 AG108 of PBE IPSAS 47.

IE183. 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 compliance obligation. That is, the Agency could allocate CU60 of the transaction consideration to the single compliance obligation and recognise revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE184. 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 value of CU55) and Supply C (stand-alone value of CU45) as follows:

Product	Allocated transaction consideration	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone value × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone value × CU60)
Total	60	

Case B – Residual Approach is Appropriate

IE185. 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 value for Supply D is highly variable (see paragraph 139(c) of PBE IPSAS 47) 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 value of Supply D using the residual approach.

IE186. Before estimating the stand-alone value of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other compliance obligations in the binding arrangement in accordance with paragraphs AG108–AG109 of PBE IPSAS 47.

IE187. 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 AG108 of PBE IPSAS 47. Using the residual approach, the Agency estimates the stand-alone value of Supply D to be CU30 as follows:

Product	Stand-alone value	Method
	CU	
Supply A	40	Directly observable (see paragraph 137 of PBE IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of PBE IPSAS 47)
Supply D	30	Residual approach (see paragraph 139(c) of PBE IPSAS 47)
Total	130	

IE188. 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 133 of PBE IPSAS 47 and the requirements in paragraph 138 of PBE IPSAS 47.

Case C – Residual Approach is Inappropriate

IE189. The same facts as in Case B apply to Case C except the transaction consideration is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone value of CU5 for Supply D (CU105 transaction consideration 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 compliance obligation to transfer Supply D, because CU5 does not approximate the stand-alone value 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 value of Supply D using another suitable method. The Agency allocates the transaction consideration of CU105 to Supplies A, B, C and D using the relative stand-alone values of those products in accordance with paragraphs 133–140 of PBE IPSAS 47.

Example 34 – Allocation of Variable Consideration

IE190. A 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 compliance obligations each satisfied at a point in time. The stand-alone values of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A – Variable Consideration Allocated Entirely to One Compliance Obligation

IE191. 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 116 of PBE IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of PBE IPSAS 47 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 142 of PBE IPSAS 47 are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amount of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 133 of PBE IPSAS 47. This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone value of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone value of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 143 of PBE IPSAS 47. 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 133 of PBE IPSAS 47.

IE193. The University transfers Formulation Y at the inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognise revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of PBE IPSAS 47, the University recognises revenue for the sales-based royalty when those subsequent sales occur.

IE194. When Formulation X is transferred, the University recognises as revenue the CU800,000 allocated to Formulation X.

Case B – Variable Consideration Allocated on the Basis of Stand-Alone Values

IE195. 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 116 of PBE IPSAS 47.

IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of PBE IPSAS 47 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 compliance 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 consideration. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction consideration on the basis of the stand-alone values of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 136–140 of PBE IPSAS 47.

IE197. The University allocates the transaction consideration of CU300,000 to Formulations X and Y on the basis of relative stand-alone values 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 value basis. However, in accordance with paragraph AG180 of PBE IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise revenue until the later of the following events: the subsequent sales occur, or the compliance obligation is satisfied (or partially satisfied).

IE198. 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 recognises as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognises as revenue the CU133,000 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE199. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG180 of PBE IPSAS 47, the University recognises 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 compliance obligation). The University recognises 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 compliance obligation to which the royalty has been allocated is not satisfied until Formulation X is transferred three months later.

Multi-Party Arrangements and the Determination of Stand-Alone Value

IE200. Example 35 illustrates the application of paragraph AG29 of PBE IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of PBE IPSAS 47 on the determination of the stand-alone value of these goods or services.

Example 35 – Provision of Vaccines to Third-Party Beneficiaries

Case A – Binding Arrangement Includes a Compliance Obligation to Transfer Goods or Services to Another Party

IE201. A health clinic (the Clinic) receives CU100,000 from the government to provide free vaccinations in the local community. The government requires the Clinic to provide 150 doses of vaccine A, which is a vaccine that the Clinic has previously provided for a stand-alone value 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.

IE202. The Clinic concludes that this binding arrangement includes two compliance obligations to transfer two distinct goods to another party, specifically 150 doses of vaccine A and 350 doses of vaccine B. This is because the government, which is acting as the purchaser, is paying the Clinic to provide vaccination services to local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG29 of PBE IPSAS 47.

IE203. In determining the stand-alone value for each dose of the vaccines, the Clinic estimates that each dose of vaccine A has a stand-alone value of CU500, based on the historical stand-alone value for that vaccine. For vaccine B, the Clinic applies paragraph AG110 of PBE IPSAS 47 and estimates that the stand-alone value of each dose is CU100, based on the expected cost approach for the Clinic to acquire each vaccination, as well as the labour costs for the administration of vaccines.

IE204. Using the stand-alone value of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction consideration to the two vaccines:

Total Stand-Alone Value of All Compliance Obligations:

Vaccine A: CU500 stand-alone value × 150 doses = CU75,000

Vaccine B: CU100 stand-alone value (based on replacement cost + labour) × 350 doses = CU35,000

Total Stand-Alone Value: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Consideration 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

IE205. Based on the above, the Clinic would recognise compliance obligations for Vaccine A (CU68,182) and Vaccine B (CU31,919) on receipt of the CU100,000 and then recognise revenue using the above allocated transaction consideration and measure its progress in satisfying its compliance obligations based on the number of vaccines A or B administered.

Case A1 – Transaction without a Binding Arrangement Includes Multiple Obligation to Transfer Goods or Services to Another Party

IE205.1 The same facts as in Case A apply to Case A1, except that entity determined that there is no binding arrangement. After considering paragraph 26 - 27, on receipt of the CU100,000, the entity would recognise a liability. The allocation of the transaction consideration to the two vaccines will be consistently applied to transactions without binding arrangement as demonstrated in paragraphs IE203–IE205 i.e. CU68,182 allocated to Vaccine A and CU31,818 allocated to Vaccine B. This aligns with Implementation Guidance paragraph C3 which indicates that the same transaction price allocation methods outlined for binding arrangements may also be applied to transactions without binding arrangements.

Case B – Binding Arrangement Includes a Compliance Obligation to Use Resources for Goods or Services Internally

IE206. Similar to Case A, the Clinic receives CU100,000 from the government. However, in this case, the funding was provided to the Clinic for the purposes of running their vaccination programme in the local community. 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 programme and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as the 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.

IE207. The Clinic considers the terms and conditions of the binding arrangement and concludes that while the arrangement includes third-party beneficiaries in accordance with AG29 of PBE IPSAS 47, its compliance obligation is to use resources internally for goods or services to run its vaccination programme. This is because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals (i.e., third-party beneficiaries). Based on its assessment, the Clinic concludes that the compliance obligation is satisfied over time as eligible expenditures are incurred because this measure of progress best depicts the entity's performance to satisfy this compliance obligation. The Clinic recognises revenue as eligible expenditures are incurred.

Principal versus Agent Considerations

IE208. Examples 36–38 illustrate the requirements in paragraphs AG117–AG125 of PBE IPSAS 47 on principal versus agent considerations.

Example 36 – Promise to Provide Goods or Services (Entity is a Principal)

IE209. A shared maintenance services entity (the Entity) enters into a binding arrangement with a government department (the Department) to provide office maintenance services on the Department's properties. The Entity and the Department define and agree on the scope of the maintenance services and negotiate the price. The Entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Entity invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE210. The Entity regularly engages third-party service providers to provide maintenance services to its purchasers. When the Entity obtains a binding arrangement from a purchaser, the Entity 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 Entity's binding arrangements with purchasers. However, the Entity is obligated to pay the service provider even if the Department fails to pay.

IE211. To determine whether the Entity is a principal or an agent, the Entity 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.

IE212. The Entity 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 Entity 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 Entity retains the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, that right. For example, the Entity 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 Entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the Entity from the service provider is not the specified good or service in its binding arrangement with the Department.

IE213. The Entity concludes that it controls the specified services before they are provided to the Department. The Entity 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 Entity's binding arrangement with the service provider give the Entity the ability to direct the service provider to provide the specified services on the Entity's behalf (see paragraph AG120(b)). In addition, the Entity concludes that the following indicators in paragraph AG123 of PBE IPSAS 47 provide further evidence that the Entity controls the office maintenance services before they are provided to the Department:

(a) The Entity is primarily responsible for satisfying the promise to provide office maintenance services. Although the Entity has hired a service provider to perform the services promised to the Department, it is the Entity itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Entity is responsible for satisfying the promise in the binding arrangement, regardless of whether the Entity performs the services itself or engages a third-party service provider to perform the services).

(b) The Entity has discretion in setting the price for the services to the Department.

IE214. The Entity 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 Entity has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Entity concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE213.

IE215. Thus, the Entity is a principal in the transaction and recognises revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

Example 37 – Promise to Provide Goods or Services (Entity is a principal)

IE216. A not-for-profit entity (NFP A) negotiates with Entity B (Entity B) to purchase goods for individual citizens at reduced rates compared with the price of the goods provided directly by Entity B to the individual citizens. NFP A agrees to buy a specific quantity of the goods and must pay for the goods regardless of whether it is able to use them. The reduced rate paid by NFP A for each unit of the goods purchased is negotiated and agreed in advance.

IE217. NFP A determines the prices at which the goods will be provided to the individual citizens. NFP A provides the goods and collects the consideration from citizens when the goods are purchased.

IE218. NFP A also assists the individual citizens in resolving complaints with the service provided by Entity B. However, Entity B is responsible for satisfying obligations associated with the goods, including remedies to a citizen for dissatisfaction with the goods.

IE219. To determine whether NFP A's compliance obligation is to provide the specified goods or services itself (i.e., NFP A is a principal) or to arrange for those goods or services to be provided by another party (i.e., NFP A is an agent), NFP A 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.

IE220. NFP A concludes that, with each unit of the goods that it commits itself to purchase from Entity B, it obtains control of a right to the unit that NFP A then transfers to an individual citizen, who in turn is one of NFP A's purchasers (see paragraph AG120(a)). Consequently, NFP A determines that the specified good or service to be provided to the individual citizen is that right to a unit of the goods that NFP A controls. NFP A observes that no other goods or services are promised in this arrangement to the individual citizens.

IE221. NFP A controls the right to each unit of the goods before it transfers that specified right to one of its citizens because NFP A has the ability to direct the use of that right by deciding whether to use the unit to fulfil a binding arrangement with a citizen and, if so, which binding arrangement it will fulfil. NFP A also has the ability to obtain the remaining benefits or service potential from that right by either reselling the goods and obtaining all of the proceeds from the sale or, alternatively, providing the goods to another individual.

IE222. The indicators in paragraphs AG123(b)–AG123(c) of PBE IPSAS 47 also provide relevant evidence that NFP A controls each specified right (to a unit of goods) before it is transferred to the citizen. NFP A has inventory risk with respect to the unit of goods because NFP A committed itself to obtaining the unit from Entity B before entering into a binding arrangement with a citizen to purchase the unit. This is because NFP A is obligated to pay Entity B for that right regardless of whether it is able to obtain a purchaser to redirect the goods to or whether it can obtain a favourable price for the goods. NFP A also establishes the price that the individual citizen will pay for the specified goods.

IE223. Thus, NFP A concludes that it is a principal in the transactions with the individual citizens. NFP A recognises revenue in the gross amount of consideration to which it is entitled in exchange for the goods transferred to the citizens.

Example 38 – Arranging for the Provision of Goods or Services (Entity is an Agent)

IE224. A Government Health Agency (Agency H) provides vouchers that entitle qualifying individuals (the patients) to subsidised medical 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 medical services (for example, a patient pays CU10 for a voucher that entitles the patient to medical services at a clinic that would otherwise cost CU20). Agency H does not purchase or commit itself to purchasing vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. Agency H provides the vouchers through its website and the vouchers are non-refundable.

IE225. Agency H 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, Agency H is entitled to 30 percent of the voucher price when it provides the voucher.

IE226. Agency H also assists the patients in resolving complaints about the medical services at the clinics and has a patient satisfaction programme. However, the clinics are responsible for satisfying obligations associated with the voucher, including remedies to a patient for dissatisfaction with the medical services.

IE227. To determine whether Agency H is a principal or an agent, Agency H 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.

IE228. A patient obtains a voucher for the clinic that it selects. Agency H does not engage the clinics to provide medical services to patients on Agency H's behalf as described in the indicator in paragraph AG123(a) of PBE IPSAS 47. Therefore, Agency H observes that the specified service to be provided to the patient is the right to medical services (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. Agency H also observes that no other goods or services (other than the vouchers) are promised to the patients.

IE229. Agency H concludes that it does not control the voucher (right to medical services) at any time. In reaching this conclusion, Agency H 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, Agency H does not at any time have the ability to direct the use of the vouchers or obtain substantially all of the remaining economic benefits or service potential from the vouchers, before they are transferred to patients.

(b) Agency H neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. Agency H also has no responsibility to accept any returned vouchers. Therefore, Agency H does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG123(b) of PBE IPSAS 47.

IE230. Thus, Agency H concludes that it is an agent with respect to the vouchers. Agency H recognises revenue in the net amount of consideration to which Agency H will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' medical services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

IE231. Example 39 illustrates the requirements in paragraphs AG135–AG138 of PBE IPSAS 47 on non-refundable upfront fees for a transfer of goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary).

Example 39 – Non-refundable Upfront Fee

IE232. A council 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.

IE233. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate compliance obligation.

IE234. 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 AG127 of PBE IPSAS 47). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction consideration, which includes the non-refundable upfront fee, and recognises revenue for the transaction processing services as those services are provided in accordance with paragraph AG136 of PBE IPSAS 47.

Other Assets from Revenue Transactions with Binding Arrangement Costs

IE235. Example 40 illustrates the requirements in paragraphs 152–155 of PBE IPSAS 47 on costs to fulfil a binding arrangement and paragraphs 156–161 of PBE IPSAS 47 on amortisation and impairment of binding arrangement costs.

Example 40 – Costs that Give Rise to an Asset

IE236. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a government department's information technology data centre for five years. The binding arrangement is renewable for subsequent one-year periods. The average 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 government's systems. That platform is not transferred to the government but will be used to deliver services to the government.

IE237. 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

IE238. The initial setup costs relate primarily to activities to fulfil the binding arrangement but do not transfer goods or services to the government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with PBE IPSAS 17.

(b) Software costs—accounted for in accordance with PBE IPSAS 31.

(c) Costs of the design, migration and testing of the data centre—assessed in accordance with paragraph 152 of PBE IPSAS 47 to determine whether an asset can be recognised for the costs to fulfil the binding arrangement. Any resulting asset would be amortised 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 centre.

IE239. 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 government. Although the costs for these two employees are incurred as part of providing the service to the government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 152(b) of PBE IPSAS 47). Therefore, the costs do not meet the criteria in paragraph 152 of PBE IPSAS 47 and cannot be recognised as an asset using PBE IPSAS 47. In accordance with paragraph 155, the Agency recognises the payroll expense for these two employees when incurred.

Presentation

IE240. Examples 41–43 illustrate the requirements in paragraphs 162–166 of PBE IPSAS 47 on the presentation of binding arrangement balances, and the consequences of applying paragraphs 119–121 on constraining estimates of variable consideration, paragraphs 123–128 on significant financing components, and AG96–AG103 on the sale of a right of return.

Example 41 – Binding Arrangement Liability and Receivable

Case A – Cancellable Binding Arrangement

IE241. On 1 January 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on 31 March 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance. The government entity pays the consideration on 1 March 20X9. The Agency transfers the product on 31 March 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency receives cash of CU1,000 on 1 March 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency satisfies the compliance obligation on 31 March 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

Case B – Non-Cancellable Binding Arrangement

IE242. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable and the advance transfer on 31 January 20X9 is required regardless of whether the Agency has started to satisfy its compliance obligation. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The amount of consideration is due on 31 January 20X9 (which is when the Agency recognises a receivable because it has an unconditional and enforceable right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency receives the cash on 1 March 20X9:

Cash	CU1,000	
Receivable		CU1,000

(c) The Agency satisfies the compliance obligation on 31 March 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE243. If the Agency issued the invoice before 31 January 20X9 (the due date of the consideration), the Agency would <u>not</u> 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 42 – Binding Arrangement Asset Recognised for the Entity's Performance

IE244. On 1 January 20X8, a government shared services agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a 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.

IE245. The Agency identifies the promises to transfer the software and complete the configuration as separate compliance obligations and allocates CU400,000 to the compliance obligation to transfer the software and CU600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Agency recognises revenue for each respective compliance obligation when control of the product transfers to the Department.

IE246. The Agency satisfies the compliance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE247. The Agency satisfies the compliance obligation to configure the software and to recognise the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

Example 43 – Receivable Recognised for the Entity's Performance

IE248. A hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on 1 January 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.

IE249. 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).

IE250. In determining the transaction consideration, 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 consideration is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognises the following:

Receivable	CU15,000[14]	
Revenue		CU12,500[15]
Refund Liability (Binding Arrangement Liability)		CU2,500

[14] CU150 per examinations × 100 examinations

[15] CU125 transaction consideration per examinations × 100 examinations

IE251. The refund liability (see paragraph 118 of PBE IPSAS 47) 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 consideration).

Disclosure

IE252. Examples 44, 46 and 48–50 illustrate the requirements in paragraphs 167–193 of PBE IPSAS 47 on disclosures. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 175–176 of PBE IPSAS 47 on services in-kind (Example 44);

(b) [Not used];

(c) Paragraphs 185–187 of PBE IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);

(d) Paragraph 120 of PBE IPSAS 47 on constraining estimates of variable consideration (Example 48);

(e) Paragraph AG90 of PBE IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and

(f) Paragraph 171 of PBE IPSAS 47 for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with compliance obligations regardless of the purchaser's ability to pay for the goods or services (Example 50).

Example 44 – Disclosure of Services In-kind not Recognised

IE253. A hospital's accounting policies are to recognise 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 organised programme. The principal aim of the programme 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 programme. 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.

IE254. The hospital analyses 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 and 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 recognise the services in-kind provided by the volunteers. In accordance with paragraphs 175–176 of PBE IPSAS 47, the hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 45 and paragraph IE255 – [Not used]

Example 46 – Disclosure of a Transfer Subject to Appropriations

IE256. The facts are the same as in Case A of Example 7. The local government does not recognise an asset for the CU5 million to be transferred in 20X3 as at 31 December 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of PBE IPSAS 19.

IE257. 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 31 December 20X2:

On 15 March 20X2, the local government entered into a binding arrangement with the central 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 the completion of the appropriation process, and that approval was not certain, and that funding could be reduced. The local government has not recognised an asset in respect of the CU5 million to be received in 20X3 because, as at 31 December 20X2, the appropriation process for this amount had not been completed and therefore the local government does not have an enforceable right to the funds.

Example 47 and paragraphs IE258 and IE259 – [Not used]

Example 48 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligations

IE260. On 30 June 20X7, a centralised 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 185–187 of PBE IPSAS 47 in determining the information in each binding arrangement to be included in the disclosure of the transaction consideration allocated to the remaining compliance obligations at 31 December 20X7.

Binding Arrangement A

IE261. 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.

IE262. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the resource provider in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG90 of PBE IPSAS 47. Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 186(b) of PBE IPSAS 47.

Binding Arrangement B

IE263. 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 compliance obligation using a time-based measure.

IE264. The Agency discloses the amount of the transaction consideration that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognise 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 31 December 20X7	4,800[16]	2,400[17]	7,200

Binding Arrangement C

IE265. Training services are to be provided as and when needed over the next two years. The Department pays a 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 120 of PBE IPSAS 47, the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE266. The Agency discloses the amount of the transaction consideration that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognise 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:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of 31 December 20X7	1,575[18]	788[19]	2,363

IE267. In addition, in accordance with paragraph 187 of PBE IPSAS 47, 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 in paragraphs 119–121.

16 CU4,800 = CU400 × 12 months.

17 CU2,400 = CU400 × 6 months

18 Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognised evenly over 24 months at CU1,575 per year.

19 CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

Example 49 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligation Qualitative Disclosure

IE268. On 1 January 20X2, a government department (the Department) enters into a binding arrangement with another department to refurbish a building for a fixed consideration of CU10 million. The refurbishment of the building is considered a single compliance obligation that the Department satisfies over time. As of 31 December 20X2, the Department has recognised CU3.2 million of revenue. the Department 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.

IE269. On 31 December 20X2, the Department discloses the amount of the transaction consideration that has not yet been recognised as revenue in its disclosure of the transaction consideration allocated to the remaining unsatisfied portion of the compliance obligation. The Department also discloses an explanation of when it expects to recognise 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 compliance obligation or by providing a qualitative explanation. Because the Department is uncertain about the timing of revenue recognition, the Department discloses this information qualitatively as follows, in accordance with paragraph 185 of PBE IPSAS 47:

As of 31 December 20X2, the aggregate amount of the transaction consideration allocated to the remaining compliance obligation is CU6.8 million and the entity will recognise this revenue as the building is completed, which is expected to occur over the next 12–18 months.

Example 50 – Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

IE270. A government-owned water utility operates the water infrastructure and provides water to residential households. The water sector in the jurisdiction is highly regulated, and under its Water Act, all utility companies which provide water to residential households are required to provide water regardless of the households' ability to pay. Typically, a household would apply to the utility to connect water to their location. As part of the connection process, the household would enter into a water purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

IE271. The water purchase agreement is considered a binding arrangement with compliance obligations, as the utility has agreed to provide a distinct good (water) to a purchaser (the household) in exchange for the consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of water even if a household is in default – i.e., the utility is compelled to satisfy the compliance obligation to provide water regardless of a household's ability to pay.

IE272. During the year, the utility provided water that would have resulted in total revenue of CU100 million if revenue had been recognised at the utility's standard rates for 100 percent of the water provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.

IE273. The utility applies paragraph AG37 of PBE IPSAS 47, 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 water. As a result, the utility recognises revenue based on a transaction consideration of CU90 million. (See Example 11 for more guidance on implicit price concessions.)

IE274. To comply with the disclosure requirements in paragraph 171 of PBE IPSAS 47, the utility discloses the following information in the notes to its annual financial statements:

The utility is subject to the provisions of the Water Act, which requires all utilities to provide water *to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its water network and to continue to provide* water *even in the event of non-payment.*

During the year, the utility provided and billed CU100 million of water *to the households, but only recognised 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 recognised as revenue.*

Application of Principles to Specific Transactions

Capital Transfers

IE275. Example 51 illustrates the application of paragraphs AG140–AG142 of PBE IPSAS 47 on capital transfers. Example 52 illustrates the initial measurement of a transfer of a physical asset.

Example 51 – Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

IE276. Entity R enters into a binding arrangement with Entity P. The terms of the binding arrangement are as follows:

(a) Entity R is to receive a capital transfer of CU22 million in cash from Entity P, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) This amount is based on budgeted construction and related costs. The funding is to be fully paid to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress, but any funds that have not been spent on construction are to be returned to Entity P.

IE277. Entity R has determined that the binding arrangement has only one compliance obligation and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete satisfaction of the compliance obligation.

IE278. In this example, the substance of the binding arrangement is to receive funding for the construction of the building, and there was no transfer relating to the subsequent use of the building by Entity R. Therefore, upon receipt of the CU22 million, Entity R recognises cash and liability for the full amount of CU22 million because it has not yet started satisfying its compliance obligation (i.e., construction of the building) and is required to return any funds not spent on construction.

IE279. As Entity R completes the construction activities in its construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity R applies this percentage to the CU22 million to determine the amount of deferred revenue that should be derecognised from liabilities and recognised as earned revenue throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE280. Building on Case A, the binding arrangement now states that:

(a) The funding amount has been increased to CU32 million. The amount is based on budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE281. In this scenario, Entity R considers the substance of the transaction in accordance with the terms of the binding arrangement and concludes that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from PBE IPSAS 47, Entity R has allocated CU22 million to the construction of the building and CU10 million to its operation as a public library.

IE282. For the compliance obligation relating to the construction of the building, as in Case A, Entity R recognises a liability of CU22 million upon receipt of the funds. Entity R then derecognises the CU22 million liability (and recognises the amounts as earned revenue) over the construction period based on its construction progress as determined by the direct construction costs incurred.

IE283. For the compliance obligation relating to the operation of the building as a library, Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library during the 10-year period, and therefore would recognise a CU10 million liability upon initial receipt of the funds. After construction has been completed, Entity R derecognises CU1 million liability per year as it operates the building as a public library and recognises the amount as earned revenue.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE284. In this scenario, the binding arrangement includes all of the terms from Case B, with the addition of the following:

(a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty of CU5 million to Entity P.

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the construction or operation of the asset. For clarity, if Entity R has completed construction of the building and operated it as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of unearned revenue related to the operating subsidy and the CU5 million penalty) to Entity P.

IE285. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, the CU32 million will be recognised as a liability upon receipt. Subsequently, the CU22 million liability will be derecognised and recognised as earned revenue as the building is constructed, and the CU10 million liability will be derecognised and recognised as earned revenue over the 10-year operating period.

IE286. The additional CU5 million penalty is not recognised by Entity R because it is a contingent liability (as defined in PBE IPSAS 19) that is not a present obligation (as described in Chapter 5*, Elements in Financial Statements* of the *PBE Conceptual Framework*). This penalty only becomes a present obligation once the past event (breaching the terms of the agreement by not operating the building as a library) has occurred. Entity R will need to consider if disclosure of the contingent liability is required by PBE IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

IE287. The following scenario is independent from Cases A-C and illustrates the accounting for revenue from an operating transfer to highlight the differences with accounting for revenue from capital transfers.

IE288. In this scenario:

(a) Entity R already owns the building;

(b) The binding arrangement includes the terms relating to a CU10 million transfer to subsidise the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalisation of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE289. In this scenario, the CU10 million transfer only relates to the compliance obligation to operate the existing building as a public library over a 10-year period. Upon initial receipt, Entity R recognises the CU10 million as a liability.

IE290. Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library throughout the 10-year period. Therefore, Entity R derecognises the liability and recognises earned revenue of CU1 million per year as it operates the building as a public library.

Example 52 – Transfers of Physical Assets

IE291. A public health facility (Public Health) enters into a binding arrangement on 1 January 20X2 with the government health agency (Agency H) and agrees to the following:

(a) Agency H will transfer ownership of an X-ray machine to Public Health upon finalisation of the binding arrangement;

(b) Public Health will use the machine to provide X-ray imaging services to the citizens in the region for 10 years. After this 10-year period, Public Health retains ownership of the machine;

(c) If Public Health stops using the machine to provide imaging services during the 10-year period, it is required to return the machine to Agency H; and

(d) At the time of transfer, the remaining useful life of the machine is 15 years.

IE292. In this scenario, the transaction constitutes a transfer as defined in paragraph 4 of PBE IPSAS 47 but is not a capital transfer as Public Health is not required to use the physical asset received to acquire or construct a non-financial asset.

IE293. Upon transfer of the X-ray machine, Public Health applies paragraph 129 of the PBE IPSAS 47 and recognises and measures the asset at its fair value at the acquisition date in accordance with PBE IPSAS 17. The entity also recognises an equivalent liability, which is derecognised (and earned revenue is recognised) over the 10 years as the compliance obligation is satisfied over time. Public Health would also amortise the X-ray machine over its remaining useful life of 15 years in accordance with PBE IPSAS 17.

Pledges

Example 53 – Television Appeal for a Not-for-Profit Hospital

IE294. On the evening of 30 June 20X5, a local television station conducts a fundraising appeal for a not-for-profit hospital (the Hospital). The annual reporting date of the Hospital is 30 June. 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.

IE295. The Hospital does not recognise any amount in its general purpose financial statements in respect of the pledges. The Hospital does not control the resources related to the pledge, because it does not have the ability to exclude or regulate the access of others to the economic benefits or service potential of the pledged resources; therefore it cannot recognise the asset or the related revenue until the donation is binding on the donor in accordance with paragraph AG150 of PBE IPSAS 47.

Concessionary Loans

Example 54 – Concessionary Loans

IE296. An Entity receives CU6 million funding from a multi-lateral development agency (Agency) to build 10 schools over the next 5 years. The funding is provided on the following conditions:

(a) CU1 million of the funding need not be repaid, provided that the schools are built;

(b) CU5 million of the funding is to be repaid as follows:

Year	Capital to be repaid
1	0%
2	10%
3	20%
4	30%
5	40%

(c) Interest is charged at five percent 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 percent;

(d) 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); and

(e) The Entity built the following schools over the period of the loan;

Year	Status
1	1 school completed
2	3 schools completed
3	5 schools completed
4	10 schools completed

IE297. The Entity determined that the substance of the CU1 million is revenue, and not a contribution from owners. In substance, the Entity has received a concessionary loan which includes a transfer of CU1 million and a loan of CU5 million, and 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 percent).

IE298. Considering paragraphs AG152–AG153 of PBE IPSAS 47, the Entity accounts for the transfer of CU1 million + CU784,550 in accordance with this Standard, and the loan with its related contractual interest and capital payments in accordance with PBE IPSAS 41.

IE299. The journal entries are illustrated below:

1. On initial recognition, the resource recipient will recognise the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the resource recipient will recognise the following:				
Dr		Liability	CU178,455	
	Cr	Revenue		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 PBE IPSAS 41).				

3. Year 2: the resource recipient will recognise the following (assuming that the resource recipient subsequently measures the concessionary loan at amortised cost):				
Dr		Liability	CU356,910	

	Cr	Revenue		CU356,910
(3/10 schools built x CU1,784,550 – CU178,455 already recognised)				

4. Year 3: the resource recipient will recognise the following:				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(5/10 schools built x CU1,784,550 – CU535,365 already recognised)				

5. Year 4: the resource recipient will recognise the following:				
Dr		Liability	CU892,275	
	Cr	Revenue		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the resource recipient would recognise the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue		CU1,784,550

Debt Forgiveness

Example 55 – Debt Forgiveness

IE300. The central government (Government C) entered into a binding arrangement to lend a local government (Government L) CU20 million to enable Government L to build a water treatment plant. After a change in policy, Government C decides to forgive the loan and advises the local government in writing. It also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE301. Upon receipt of this letter and documentation from Government C, Government L derecognises the liability for the loan and recognises revenue in the statement of comprehensive revenue and expenses in the reporting period in which the liability is derecognised in accordance with paragraphs AG155–AG158 of PBE IPSAS 47.

Bequests

Example 56 – Proposed Bequest

IE302. A 25-year-old recent graduate (the Graduate) of a university names the university (the University) 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.

IE303. The University does not recognise any asset or revenue in its general purpose financial statements for the period in which the will is made, in accordance with paragraphs AG161–AG163 of PBE IPSAS 47. The past event for a bequest is the death of the testator (i.e., the Graduate), which has not occurred.

Gifts and Donations, including Goods In-kind

Example 57 – Goods In-kind

IE304. A Defence Force Agency of Government A (Defence Agency) agrees to provide an Aid Agency of Government B (Aid Agency) with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Defence Agency purchased the tents for CU100 per unit two years prior to transferring them to Aid Agency. The agreement states that the tents are valued at CU100 per unit.

IE305. Aid Agency concludes that it has received a donation in the form of goods in-kind and applies paragraphs AG164–AG167 of PBE IPSAS 47. Upon receipt, Aid Agency determines that PBE IPSAS 17 is the relevant PBE Standard. Aid Agency determines that the fair value for this obsolete version of the tent is CU50. Therefore, Aid Agency recognises revenue at the value of CU50 per unit received instead of the CU100 as stated in the agreement.

Example 58 – External Assistance

IE306. Government A enters into an external assistance agreement with Government B, which provides Government A with development assistance to support Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties through an international court of law. The agreement specifies the details of the development assistance receivable by Government A and the types of items or expenditures the funds can be spent on to further its health objectives. Government A measures the transaction consideration of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to Government B.

IE307. At inception of the binding arrangement, Government A has a combined right and obligation which constitute a single asset or liability, which is measured at zero because the binding arrangement is wholly unsatisfied. Government A will recognise an asset on its statement of financial position in accordance with paragraphs 18–25 (for example, when Government A receives an inflow of resources from Government B, or if Government A begins satisfying its compliance obligation by incurring eligible expenditures in accordance with the terms of the external assistance agreement). Government A would also recognise a liability, which is derecognised (and earned revenue is recognised) as the compliance obligation is satisfied.

Comparison with NZ IFRS 15

Comparison with NZ IFRS 15

The binding arrangement accounting requirements in PBE IPSAS 47 *Revenue* are drawn primarily from NZ IFRS 15, *Revenue from Contracts with Customers* (issued in 2014, including amendments up to January 2022). The main differences between PBE IPSAS 47 and NZ IFRS 15 are as follows:

- PBE IPSAS 47 applies to all revenue transactions in the not-for-profit and public sector, which may arise from transactions with or without binding arrangements. NZ IFRS 15 applies to a subset of binding arrangements, specifically contracts to deliver goods or services to customers.
- PBE IPSAS 47 explicitly requires an entity to determine whether the revenue arises from a transaction with or without a binding arrangement. NZ IFRS 15 does not explicitly require an entity to determine whether the revenue arises from a contract.
- PBE IPSAS 47 uses the term “compliance obligation” as the unit of account for revenue recognition in a binding arrangement, which is a promise to either use resources internally for distinct goods or services, or to transfer distinct goods or services to another party (i.e., a purchaser or third-party beneficiary). NZ IFRS 15 uses the term “performance obligation” as the unit of account for revenue recognition in a contract, which is a promise to transfer distinct goods or services to a customer.
- The concept of compliance obligations in PBE IPSAS 47 is broader than performance obligations in NZ IFRS 15. As a result, NZ IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* is not applicable for public benefit entities because PBE IPSAS 47 includes principles to account for capital transfers and other transfers arising from binding arrangements.
- PBE IPSAS 47 requires an entity to disclose any transactions where it is compelled to satisfy an obligation, regardless of the counterparty’s ability or intention to pay and the probability of collection of consideration. NZ IFRS 15 does not require this disclosure.
- PBE IPSAS 47 uses different terminology from NZ IFRS 15. For example, PBE IPSAS 47 uses the terms "compliance obligation", “resource provider”, “stand-alone value”, and “economic substance”, while IFRS 15 uses the terms “performance obligation”, “customer”, “stand-alone selling price”, and “commercial substance”, respectively.

Comparison with IPSAS 47

PBE IPSAS 47 *Revenue* is drawn from IPSAS 47 *Revenue.*

The significant differences between PBE IPSAS 47 and IPSAS 47 are:

(a) PBE IPSAS 47 includes RDR concessions for Tier 2 public benefit entities. These concessions are aligned with those provided in NZ IFRS 15 *Revenue from Contracts with Customers* for Tier 2 for-profit entities.

(b) Unlike IPSAS 47, PBE IPSAS 47 applies to both public sector PBEs and Not-for-Profit PBEs. This has resulted in terminology changes and the inclusion of New Zealand Not-for-Profit guidance from PBE IPSAS 23 Implementation Guidance Appendix B in PBE IPSAS 47.

(c) PBE IPSAS 47 includes application guidance paragraph AG166.1, which aligns with paragraph 97.1 in PBE IPSAS 23 *Revenue from Non-exchange Transactions*. This guidance allows entities to elect not to recognize goods in-kind that meet the definition of inventories in PBE IPSAS 12 *Inventories* if it is not practicable to measure reliably the fair value of those goods at the date of acquisition. This exemption is particularly relevant for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution.

(d) PBE IPSAS 47 includes additional consequential amendments to certain PBE Standards – such as PBE FRS 45 *Service Concession Arrangements: Operator*, PBE FRS 48 *Service Performance Reporting*, PBE IAS 12 *Income Taxes,* PBE IFRS 17 *Insurance Contracts* and PBE IPSAS 13 *Leases*. Furthermore, in PBE IPSAS 47, the consequential amendments, that do not relate to PBE Standards (IPSAS 18 *Segment Reporting*, IPSAS 24 *Presentation of Budget Information in Financial Statements*, IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*, IPSAS 43 *Leases*, IPSAS 44 *Non-current Assets Held for Sale and Discontinued Operations*, IPSAS 45 *Property, Plant and Equipment)* have been removed.

(e) In accordance with Implementation Guidance paragraph B.3 in IPSAS 47, the term "appropriation" is defined in IPSAS 24 *Presentation of Budget Information in Financial Statements*, as an authorisation granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or a similar authority. However, since IPSAS 24 has not been incorporated into PBE Standards, the reference to the IPSAS 24 definition has been removed. PBE IPSAS 47 Implementation Guidance paragraph B.3 have been amended to refer to an appropriation as an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority. This update in PBE IPSAS 47 clarifies that the authorisation pertains to incurring expenses or capital expenditure, rather than merely the allocation of funds as described in IPSAS 24. This update aligns with the New Zealand Public Finance Act 1989.

(f) Implementation Guidance paragraph C3 in PBE IPSAS 47 was introduced to navigate complexities that may occur in transactions without a binding arrangement which involve multiple obligations. This paragraph clarifies that the allocation of the transaction price methods specified for binding arrangements in paragraphs 133–140 may also be applied to transactions without binding arrangements.

(g) PBE IPSAS 47 Illustrative Example 35 was expanded with Case A1 to demonstrate that the methods for the allocation of the transaction price specified for binding arrangements may also be applied to transactions without binding arrangements.

(h) PBE IPSAS 47 Illustrative Example 20 Case A was expanded to demonstrate the deferral of revenue in transactions where resources are used internally.

(i) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed new revenue accounting standard

Tier 1 & 2 Public Benefit Entities

Consultation document - PBE IPSAS 47 *Revenue*

Submissions close 1 December 2025

June 2025

Comment period closes 1 December 2025

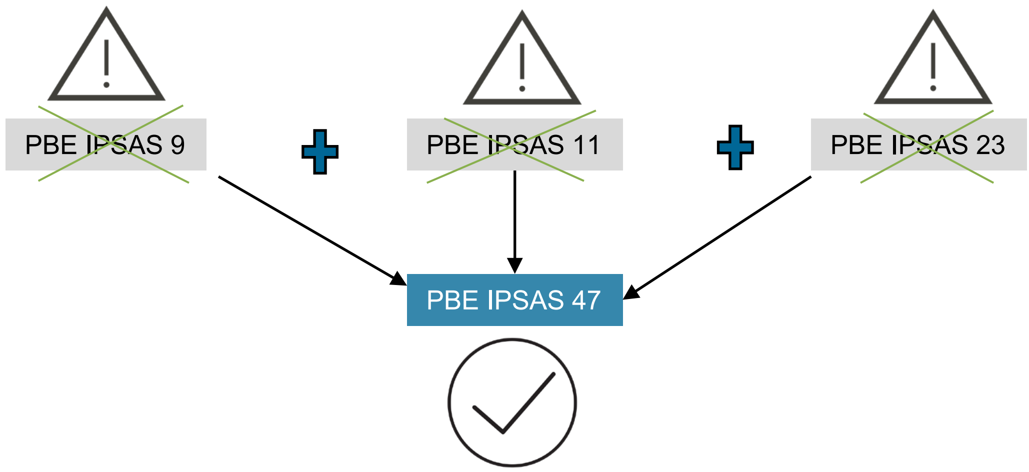
Contents

PART ONE: Introduction

A. What is this consultation about?

Public benefit entities (PBEs) in both the public and the not-for-profit (NFP) sectors enter into a wide variety of revenue arrangements, some of which can be quite complex. These arrangements can involve multiple obligations, varying payment terms, and conditions that require significant judgement. Existing frameworks do not always provide sufficient guidance to support the consistent application of this judgement.

This consultation proposes to introduce a new PBE Standard for revenue based on the International Public Sector Accounting Standards Board (IPSASB) standard IPSAS 47 Revenue, with a proposed mandatory date of 1 January 2029. The proposed standard would supersede PBE IPSAS 9 Revenue from Exchange Transactions, PBE IPSAS 11 Construction Contracts, and PBE IPSAS 23 Revenue from Non-Exchange Transactions. The proposed standard aims to provide a more robust framework for revenue recognition, enhancing consistency and transparency in financial reporting. It also seeks to future-proof revenue accounting by ensuring that the principles remain relevant as revenue arrangements evolve, equipping PBEs with a structured approach to navigating complex transactions.



In addition to aligning with the IPSASB Standard, the proposals are also closely aligned with the for-profit revenue accounting standard, NZ IFRS 15 *Revenue from Contracts with Customers*. Therefore, the proposals will allow New Zealand PBEs to benefit from the latest international thinking and guidance materials available for revenue recognition principles. This will also make it easier for ‘mixed groups’ containing both PBEs and for-profit entities to prepare group financial statements.

A. What is this consultation about? (cont.)

Background

In May 2023, the IPSASB issued IPSAS 47. IPSAS 47 supersedes the IPSASB's old revenue standards and introduces a new approach to revenue recognition by distinguishing between revenue transactions arising from binding arrangements and those without binding arrangements. The binding arrangement principle is explained in more detail in Section F.

For transactions *with* binding arrangements, revenue is recognised based on the satisfaction of compliance obligations, reflecting the transfer of promised goods or services to another party or their use internally. This accounting model generally follows the principles of NZ IFRS 15 but has been adapted and extended to enhance its applicability in the public sector.

For transactions *without* binding arrangements, revenue is generally recognised as or when the entity obtains control of resources unless a liability exists, in which case revenue is recognised when the liability is satisfied.

In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs are primarily based on IPSAS. When proposing to issue a new PBE Standard based on an IPSAS, the New Zealand Accounting Standards Board (NZASB) considers and seeks feedback on the need for New Zealand-specific amendments and/or guidance.

The accompanying Exposure Draft (ED) PBE IPSAS 47 *Revenue* is a draft of the proposed PBE Standard, which would be applicable to Tier 1 and Tier 2 PBEs.

Coherence with other PBE Standards

Certain key principles in the proposed PBE IPSAS 47 align closely with ED PBE IPSAS 48 *Transfer Expenses,* which addresses the accounting for expenses such as grants and social assistance payments. Together, these proposed standards ensure consistent recognition principles for both revenue and transfer expenses for PBEs. However, while the proposed PBE IPSAS 47 applies to all revenue transactions, the proposed PBE IPSAS 48 is specifically limited to expenses arising from transactions, 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.

Additionally, the proposed PBE IPSAS 47 also reflects the updated PBE Conceptual Framework, particularly its criteria for liability recognition and equally unperformed binding arrangements.

A note on IPSASB ED 70 and ED 71

In 2020 we consulted in New Zealand on IPSASB ED 70 *Revenue with Performance Obligations* and IPSASB ED 71 *Revenue without Performance Obligations*, which was released together with the IPSASB's ED on transfer expenses.

Concerns were raised, both internationally and from New Zealand stakeholders, on the definition and criteria for performance obligations. When finalising IPSAS 47, the IPSASB ultimately decided to change focus to use binding arrangements and compliance obligations as a fundamental concept for revenue accounting.

B. How to provide feedback

Responding to consultation questions

We are seeking comments on the questions raised in this Consultation Document. We will consider all comments received before finalising the proposals for PBE IPSAS 47.

Please feel free to comment on any or all of the questions or any part of the proposed Standard. We also welcome any additional feedback on any areas of the proposed Standard not covered by the questions.

A dedicated consultation page provides information and guidance materials for reference.

Making a submission

You can provide feedback to us via:

- the consultation page on our website (where you can complete the online form and/or upload your comments); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

Please include 'PBE IPSAS 47 *Revenue*' in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

For further engagement, we invite you to join our consultation drop-in sessions. Please visit our website for further details.

The closing date for submissions is 1 December 2025.

Projected Timeline

June 2025
ED PBE IPSAS 47 issued for public consultation

1 December 2025
Submissions due to the NZASB

Q3 2026
PBE IPSAS 47 issued as final Standard

1 January 2029
PBE IPSAS 47 *Revenue* mandatory for periods beginning on or after this date

Publication of submissions, the Official Information Act and the Privacy Act

We intend to publish all submissions on the XRB website unless they may be defamatory. However, all submissions remain subject to the Official Information Act 1982 and may be released in part or in full. The Privacy Act 2020 also applies. If you wish to request that your submission, or specific parts of it, be withheld from publication or disclosure, please identify the relevant sections and provide the grounds for withholding under the Official Information Act 1982 (e.g. that disclosure would likely unfairly prejudice the commercial position of the person providing the information).

PART TWO: Questions for Respondents

C. Questions for respondents

The questions for respondents focus on the costs and benefits of implementing the proposed Standard as well as the specific proposals within PBE IPSAS 47, as discussed in Section 4 of this Consultation Document.

Benefits and cost consideration (Section D)

1a. What are the anticipated benefits of adopting the proposed PBE IPSAS 47 for your organisation? Please provide specific examples.

1b. What are the anticipated initial and ongoing costs your organisation may incur in adopting the proposed PBE IPSAS 47? Please provide specific examples.

1c. Considering the benefits and costs identified above, do you expect the benefits of adopting PBE IPSAS 47 to outweigh the costs for your organisation? Please explain your reasoning.

Key principles for revenue accounting (Section F)

2. Do the binding arrangement, enforceability and compliance obligation principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

Revenue recognition (Section G)

3. Do you agree with the proposed approach to revenue recognition for transactions *without* binding arrangements? Are there any specific challenges you foresee in applying this approach?

4. Do you agree with the proposed approach to revenue recognition for transactions *with* binding arrangements? Are there any specific challenges you foresee in applying this approach?

Implementation and specific issues (Section H)

5. What challenges do you anticipate in implementing PBE IPSAS 47, including any specific transactions or scenarios where additional clarification may be needed? What support or guidance would be most helpful to assist with these challenges?

Disclosure and RDR concessions (Section I)

6. Do you consider the disclosure requirements in PBE IPSAS 47 to be appropriate and proportionate to the needs of users of PBE financial statements?

7. Do you agree with the proposed reduced disclosure requirements (RDR) concessions for Tier 2 PBEs?

Mandatory date and other comments (Section J)

8. Do you agree with the proposed mandatory date of 1 January 2029?

9. Do you have any other comments on the ED?

PART THREE: Benefits and cost consideration

D. Benefit vs Cost consideration

In this section, we aim to provide an analysis of the anticipated costs and benefits associated with the implementation of the proposed PBE IPSAS 47. Understanding the financial and operational implications is crucial for us to make informed decisions when developing new accounting standards. Your feedback will be invaluable in ensuring that the proposed Standard is both practical and beneficial for all parties involved.

Benefits of the proposals

The proposed PBE IPSAS 47 is expected to result in the following benefits:

Information transparency and higher quality financial reporting: The proposed PBE IPSAS 47 enhances transparency regarding the substance of an entity's revenue transactions by introducing a more robust and objective approach to the recognition and measurement of revenue. Inherently, accounting for revenue may require significant judgement, particularly in assessing the nature and timing of revenue recognition. The current revenue PBE Standards have led to inconsistencies due to the difficulty in distinguishing between exchange and non-exchange transactions and have constraints on deferring revenue. This proposed Standard provides a structured framework to support the application of judgement consistently and transparently, reducing variability in practice. Given the inherent judgement and current challenges, higher quality financial reporting in New Zealand would be achieved through adoption of this proposed Standard.

Increased comparability: The proposed PBE IPSAS 47 enhances comparability in financial reporting by providing a unified framework for recognising revenue across various types of arrangements. This ensures that PBEs operating in similar circumstances report revenue in a consistent manner. The proposed standard also bridges gaps between sectors, enabling more meaningful benchmarking between public sector entities, NFP organisations and for-profit counterparts.

Coherence: As noted in section A, the core principles of the proposed PBE IPSAS 47 are consistent with those of the proposed PBE IPSAS 48. This coherence is further supported by alignment with the updated PBE Conceptual Framework and other PBE Standards.

International alignment: The proposed PBE IPSAS 47 is closely aligned with the principles of NZ IFRS 15, particularly for transactions involving binding arrangements. This alignment offers PBEs comprehensive guidance, global harmonisation, and enhances consistency in revenue reporting. Additionally, it supports workforce mobility by enabling professionals with NZ IFRS 15 experience to apply their expertise to PBE IPSAS 47. This common foundation across standards helps facilitate the movement of accounting professionals between sectors to strengthen high-quality financial reporting practices.

Easier reporting for 'mixed groups': This alignment with NZ IFRS 15 also benefits PBEs with for-profit subsidiaries – sometimes called 'mixed groups' – as it will likely require fewer accounting adjustments when preparing group financial statements.

Costs of the proposals

The adoption of the proposed PBE IPSAS 47 is anticipated to incur the following costs:

Time and resource investment: As with any new accounting standard, there will be costs associated with adoption and familiarisation. Preparers, auditors, and other stakeholders will need to invest time and resources in understanding and applying the new principles and guidance in the proposed PBE IPSAS 47, which is notably detailed and extensive. The majority of these costs are expected to be one-off expenses during the implementation phase, with minor ongoing costs for periodic training of new staff and for assessing and applying the requirements to new revenue arrangements as they arise.

D. Benefit vs Cost consideration (cont.)

Judgement and ongoing application costs: Accounting for revenue inherently may require significant judgement. PBE IPSAS 47 introduces new judgements, particularly during transition, as PBEs reassess existing and new revenue arrangements. Complexity will vary by entity, with NFPs potentially facing greater challenges given the high volume of arrangements they manage and potential resource constraints. While many of these costs are anticipated to be concentrated during the initial transition, ongoing expenses will persist as PBEs continually assess and apply the proposed standard to new or revised arrangements.

Adoption effort vs. actual change: Implementing the proposed PBE IPSAS 47 may involve significant effort due to the proposed Standard's length and complexity. However, for many PBEs, the practical impact on their revenue recognition processes may be minimal, leading to questions about the overall value of adopting such a comprehensive standard. While this represents a one-time implementation challenge, it is not necessarily a direct cost but rather a consideration of the balance between the effort required and the anticipated benefits.

In conclusion: Adopting the proposed PBE IPSAS 47 in New Zealand is expected to enhance the quality and consistency of revenue reporting within the NFP and public sectors. By consolidating revenue accounting guidance into a single standard, the proposed PBE IPSAS 47 addresses the limitations of previous standards. The alignment with NZ IFRS 15 principles further ensures that New Zealand's PBEs can benefit from global best practices in revenue recognition, reducing inconsistencies in reporting. This will improve comparability and transparency in financial reporting.

While the initial adoption may require effort and investment, the long-term benefits are expected to outweigh the costs.

Question 1

a. What are the anticipated benefits of adopting the proposed PBE IPSAS 47 for your organisation? Please provide specific examples.

b. What are the anticipated initial and ongoing costs your organisation may incur in adopting the proposed PBE IPSAS 47? Please provide specific examples.

c. Considering the benefits and costs identified above, do you expect the benefits of adopting PBE IPSAS 47 to outweigh the costs for your organisation? Please explain your reasoning.

Invitation for field testing of PBE IPSAS 47

To ensure that the adoption of the proposed PBE IPSAS 47 meets the practical needs of public sector and NFP entities in New Zealand, we invite preparers to participate in field testing the proposed Standard. Field testing will help identify potential challenges, provide insights into implementation, and assess the cost vs benefit impact of adopting the proposed PBE IPSAS 47.

If you are interested in participating or would like further details, please contact us at accounting@xrb.govt.nz

PART FOUR: Overview of Proposals

E. Overview of proposals

Summary

In Part 4, we highlight the key aspects of the proposals and those areas where we are particularly interested in your feedback. Part 4 is organised as follows.

F. Key principles in revenue accounting

G. Recognition of revenue transactions

H. Implementation and specific issues

I. Disclosure and RDR concessions

J. Mandatory date and other comments.

Approach to developing PBE IPSAS 47

The proposed PBE IPSAS 47 is closely based on IPSAS 47. In accordance with its usual approach to developing a PBE Standard based on an IPSAS, the NZASB has:

- aligned terminology with that used in PBE Standards (for example, PBE Standards include the concept of other comprehensive revenue and expense);
- ensured coherence within PBE Standards by considering the existence of New Zealand-specific standards or requirements;
- considered the need for any modifications to the IPSAS, to make the proposed Standard more appropriate for PBEs in New Zealand, such as making NFP enhancements; and
- identified reduced disclosure requirements (RDR) for Tier 2 PBEs, with respect to disclosure requirements in the proposed standard.

Terminology used in the proposed Standard

The proposed PBE IPSAS 47 introduces several new terms into PBE Standards, which are discussed further throughout this document. Some of these new terms, noted in the table below, are similar, but not identical, to those used in the proposed PBE IPSAS 48.

Resource recipient ***(the reporting entity)***	**An entity that receives resources (e.g. goods, services or other assets) from the resource provider and recognises revenue when or as compliance obligations, or any enforceable obligation, are satisfied.** The proposed PBE IPSAS 48 uses the term *transfer recipient* but the scope of the proposed new Standard for transfer expenses is narrower, as it only includes goods, services, or other assets received from another party *without* directly providing any good, service, or other asset in return.
Resource provider	**An entity that provides a good, service or other asset (e.g. cash) to a resource recipient.** The proposed PBE IPSAS 48 uses the term *transfer provider*, for reasons similar to those noted above.

F. Key Principles for Revenue Accounting

Binding Arrangement

The proposed PBE IPSAS 47 has been developed as a single source for revenue accounting guidance for PBEs. The proposed standard does not include a distinction between exchange and non-exchange transactions. Instead, it contains the following two accounting models:

- Revenue from transactions ***with*** binding arrangements; and
- Revenue from transactions ***without*** binding arrangements.

Binding Arrangement definition

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

The concept of a binding arrangement is fundamental to the accounting for revenue. Therefore, a key judgement for PBEs to make is whether or not a revenue transaction arises from a binding arrangement. This is the first step in accounting for the transaction. The proposed Standard includes extensive guidance to assist PBEs with this judgement, in particular with respect to the enforceability of an arrangement.

Enforceability

The definition of a binding arrangement is underpinned by the principle of enforceability.

An arrangement is enforceable when at least two of the parties are able to enforce their respective rights and obligations through various mechanisms. An arrangement is enforceable if it includes:

a) clearly specified rights and obligations for at least two of the parties to the arrangement; and

b) remedies for non-completion by each of these parties which can be enforced through the identified enforcement mechanisms.

Refer to ED PBE IPSAS 47 paragraphs 9–16 and Application Guidance paragraph AG10–AG31 for further information on the binding arrangement and enforceability concepts, as well as the mechanisms of enforceability that PBEs should consider.

Compliance obligation

Additionally, ED PBE IPSAS 47 introduces the new concept of a 'compliance obligation' in a binding arrangement.

Compliance Obligation definition

A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.

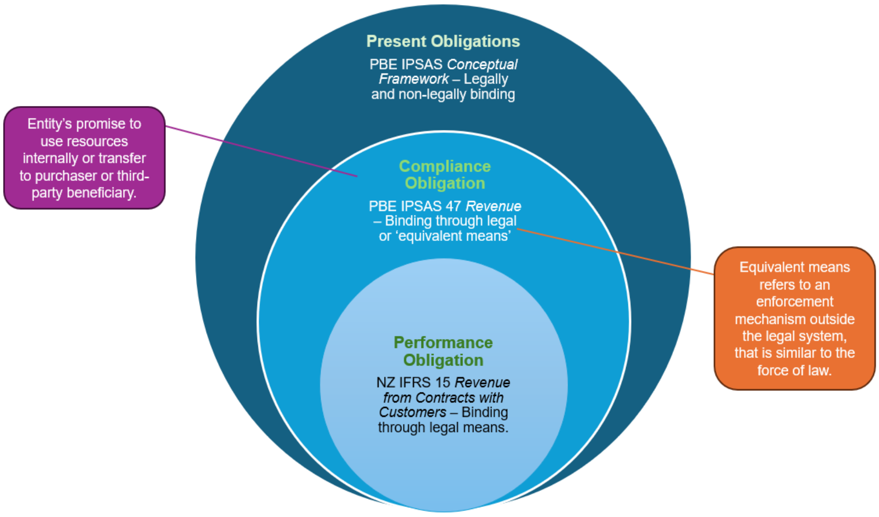
Compliance obligations in binding arrangements are *units of account* that determine distinct goods or services promised, and are mechanisms used for the recognition and measurement of revenue. Therefore, each binding arrangement will have at least one compliance obligation. Revenue is recognised when or as each compliance obligation is satisfied, whether it is internally used or delivered to the resource provider or a third party.

This definition and concept aligns with the concept of a 'performance obligation' as contained in IPSASB ED 70 and NZ IFRS 15, but also captures revenue from PBE transactions that require the use of resources internally or the transfer of goods and services to a third-party beneficiary.

F. Key Principles for Revenue Accounting (cont.)

The recognition of revenue for internal use of resources is not new under IPSAS literature and was accounted for under IPSAS 23: *Revenue from Non-Exchange Transactions*. Similarly, revenue recognition for transfers to the purchaser or a third-party beneficiary was accounted for under IPSAS 9: *Revenue from Exchange Transactions*. However, under IPSAS 47, the delivery of the revenue obligation internally or externally has been combined into one concept of a compliance obligation. It was combined as the accounting and recognition of the revenue doesn't differ whether it is used internally or transferred externally.

The below diagram illustrates the relationship between *compliance obligation* and the previously used terms:



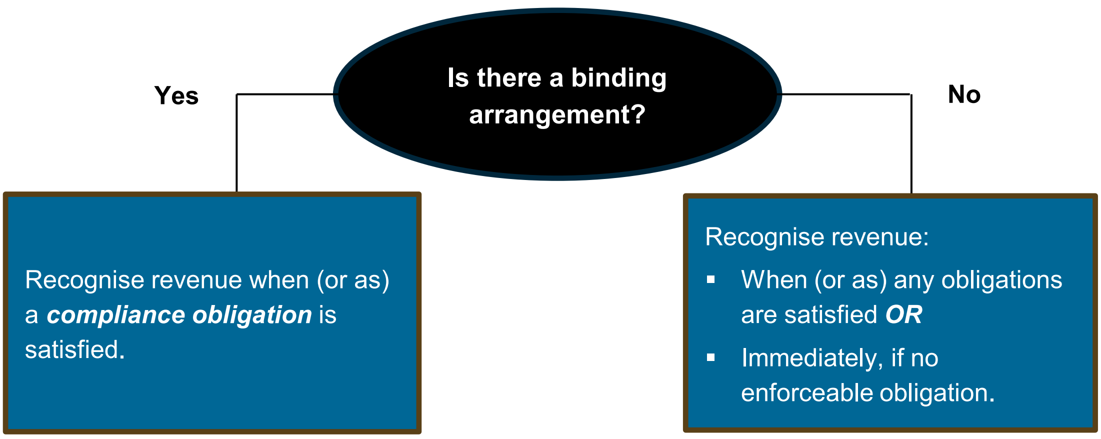
Refer to ED PBE IPSAS 47 paragraphs 68 – 77 and Application Guidance paragraphs AG43 – AG56 for further information on compliance obligations.

Questions

2. Do the binding arrangement, enforceability and compliance obligation principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

G. Revenue recognition

Once a PBE has determined whether or not there is a binding arrangement, the PBE applies one of two models set out in the proposed PBE IPSAS 47:



G. Revenue Recognition (cont.)

Transactions *WITHOUT* binding arrangements

Under this model, a PBE must recognise revenue:

a) when (or as) the PBE satisfies any obligation associated with the inflow of resources that meets the definition of a liability (meaning the PBE, as a result of the inflow, has little or no realistic alternative to avoid an outflow of resources); or

b) Immediately, if the PBE does not have an enforceable obligation associated with the inflow of resources.

Taxes are recognised as revenue from transactions without binding arrangements as the taxpayer does not have an enforceable right to a direct return for the amount paid. A PBE shall recognise an asset and revenue in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

The approach in PBE IPSAS 23, which only allowed for the deferral of revenue recognition for non-exchange transactions when there was a *use or return condition*, has been removed. Instead, the ability to defer revenue recognition is based on the existence of enforceable obligations, which is a much broader principle built around the PBE Conceptual Framework definition of a liability.

Refer to ED PBE IPSAS 47 paragraphs 17–55 and Implementation Guidance Section C.

Questions

3. Do you agree with the proposed approach to revenue recognition for transactions ***without*** binding arrangements? Are there any specific challenges you foresee in applying this approach?

Transactions *WITH* binding arrangements

The revenue recognition approach for transactions with binding arrangements is based on NZ IFRS 15 — including the five-step model that has been adapted for the public sector.

Confirm binding arrangement model criteria are met → Identify compliance obligations → Determine the transaction consideration → Allocate the transaction consideration → Recognise revenue

Under this model, a PBE must recognise revenue as the compliance obligations associated with the inflow of resources are satisfied. A liability (deferred revenue) is recognised at reporting date for any unsatisfied compliance obligations in respect of the inflow of resources received from the revenue transaction.

Refer to ED PBE IPSAS 47 paragraphs 56–161, Application Guidance paragraphs AG32–AG139 and Implementation Guidance Section D.

Questions

4. Do you agree with the proposed approach to revenue recognition for transactions ***with*** binding arrangements? Are there any specific challenges you foresee in applying this approach?

H. Implementation and specific issues

The proposed PBE IPSAS 47 introduces a comprehensive and robust framework for recognising and measuring revenue. The proposed standard aims to address common challenges faced in the application of previous guidance by providing additional support. This includes extensive application guidance, implementation guidance, and 56 illustrative examples that reflect a range of public sector and NFP specific scenarios. The examples and guidance aim to enhance clarity and facilitate the practical application of the proposed Standard.

Some of the key areas where the proposed standard provides specific guidance include:

- **Capital transfers**: Addressing issues related to revenue recognition for resources intended for capital projects (Application Guidance paragraphs AG141 - AG143 and Implementation Guidance Section A and D3).
- **Multi-year funding arrangements**: Clarifying recognition of revenue where funding spans multiple reporting periods (Implementation Guidance Section E1).
- **Appropriations**: Providing insights on recognising revenue from appropriations (Implementation Guidance Section B.3).
- **Services in-kind**: Offering practical guidance on accounting for services received without a direct exchange of consideration (Application Guidance paragraphs AG144 – AG150 and Implementation Guidance Section G).

Additionally, in developing the proposed PBE IPSAS 47, we have created specific guidance for NFP entities that closely mirrors the NFP guidance in PBE IPSAS 23 Implementation Guidance Appendix B. This guidance, included in the proposed PBE IPSAS 47 Implementation Guidance Appendix G, has been adjusted to align with the principles in the proposed PBE IPSAS 47 and focuses on bequests, cash donations and fundraising, goods and services in-kind, and uncompleted obligations. By aligning with the new Standard, this guidance aims to provide clearer and more consistent revenue recognition practices for NFP entities.

These additions aim to reduce ambiguity and improve consistency across PBEs in how revenue is reported. However, implementation of a new standard often raises questions or challenges, particularly during the transition period.

To ensure a smooth adoption of the proposed PBE IPSAS 47, we are seeking stakeholder feedback on any areas where further clarification or support might be needed.

Question

5. What challenges do you anticipate in implementing PBE IPSAS 47, including any specific transactions or scenarios where additional clarification may be needed? What support or guidance would be most helpful to assist with these challenges?

I. Disclosure and RDR concessions

The proposed PBE IPSAS 47 introduces expanded disclosure requirements that align largely with NZ IFRS 15 and PBE IPSAS 23. These requirements aim to enhance transparency and comparability and to provide useful information to users of financial statements.

Additionally, the ED includes proposed disclosure concessions for Tier 2 PBEs. These disclosure concessions are aligned with those provided to Tier 2 for-profit entities under NZ IFRS 15 and PBE IPSAS 23 and aim to balance the need for transparency with the reporting burden on entities.

I. Disclosure and RDR concessions (cont.)

The ED proposes to provide disclosure *concessions* for Tier 2 entities with respect to the following disclosures:

(a) qualitative and quantitative information about recognised services in-kind and the encouraged qualitative disclosures for services in-kind that are not recognised – paragraphs 170 (f) & 175;

(b) revenue recognised from the opening binding arrangement liability balance, revenue from prior periods' compliance obligations, and qualitative and quantitative explanations of material changes in binding arrangement assets and liabilities, including their timing, causes, and impacts – paragraphs 181–183;

(c) the transaction consideration allocated to unsatisfied compliance obligations, explaining when the PBE expects to recognise this revenue using quantitative or qualitative information, and disclosure on whether a practical expedient for short-term arrangements or certain revenue recognition methods is applied – paragraphs 185 - 187;

(d) specific disclosure of significant judgements made in determining the timing of satisfying compliance obligations and determining the transaction consideration and amount allocated to compliance obligations – paragraphs 188 (b) & 190; and

(e) judgements made in determining the costs to obtain or fulfill a binding arrangement with a resource provider and disclosure of the closing balances of such assets, categorised by type – paragraphs 191 (a) & 192 (a). Instead, paragraph RDR192.1 only proposes disclosing the closing balances of assets recognised from the costs incurred to obtain or fulfil a binding arrangement with a resource provider.

Questions

6. Do you consider the disclosure requirements in the proposed PBE IPSAS 47 to be appropriate and proportionate to the needs of users of PBE financial statements?

7. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

J. Mandatory date and other comments

The ED proposes that PBE IPSAS 47 be applied for annual financial statements covering periods beginning on or after 1 January 2029. Application would be permitted for accounting periods that begin before 1 January 2029 but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

We believe that a mandatory date of 1 January 2029 would allow PBEs sufficient time to prepare for the application of the Standard.

With early application permitted, those PBEs that wish to adopt PBE IPSAS 47 early will be able to do so.

Questions

8. Do you agree with the proposed mandatory date of 1 January 2029?

9. Do you have any other comments on the ED?

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EXTERNAL REPORTING BOARD

Proposed new accounting standard for transfer expenses

Tier 1 and Tier 2 public benefit entities

Exposure Draft PBE IPSAS 48 *Transfer Expenses*

Submissions close 1 December 2025

June 2025

NZASB EXPOSURE DRAFT 2025-[xx]

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 48 TRANSFER EXPENSES (PBE IPSAS 48)

Issued [date]

This [draft][1] Standard has been issued as a result of a new International Public Sector Accounting Standard – IPSAS 48 *Transfer Expenses.*

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of Standard

This Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after its publication. The Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

This Standard has a mandatory date of [1 January 2029], meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of this Standard to an earlier accounting period is permitted for accounting periods that end after the Standard takes effect – refer to paragraphs 62–62.3 of this Standard.

This Standard includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 public benefit entity accounting requirements in accordance with XRB A1 *Application of the Accounting Standards Framework*. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (*). However, an entity is required to comply with any RDR paragraphs associated with a disclosure concession that is adopted.

1 References to "this Standard" or "PBE IPSAS 48" throughout this Exposure Draft should be read as referring to "this draft Standard" or "draft PBE IPSAS 48".

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PBE IPSAS 48 TRANSFER EXPENSES

CONTENTS

Public Benefit Entity International Public Sector Accounting Standard 48 *Transfer Expenses* is set out in paragraphs 1–64 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 48 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 48, the IPSASB's Basis for Conclusions on IPSAS 48, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and

   (b) Sets out the accounting requirements for the transfer expense transaction.

Scope

2.1. **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

2.2. **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. **An entity that prepares and presents financial statements shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.**

4. **This Standard does not apply to:**

   (a) Leases as defined in PBE IPSAS 13[2] *Leases*;

   (b) Contributions from, and distributions to, owners;

   (c) Service concession arrangements as defined in PBE IPSAS 32 *Service Concession Arrangements: Grantor*;

   (d) Employee benefits as defined in PBE IPSAS 39 *Employee Benefits*;

   (e) Financial instruments, including concessionary loans, as defined in PBE IPSAS 41 *Financial Instruments*;

   (f) [Not used]

   (g) Insurance contracts within the scope of PBE IFRS 17 *Insurance Contracts*;

   (h) Share-based payments (see the international or national accounting standard dealing with share-based payments); and

   (i) Income taxes within the scope of PBE IAS 12 *Income Taxes*.

4.1. The scope of this Standard includes expenses arising from transactions relating to social welfare payments to individuals (such as for unemployment and national superannuation benefits) and to the delivery of services to individuals and communities by central and local governments (such as health and education services) when they meet the definition of a transfer expense (see paragraph 6).

4.2. The transactions referred to in paragraph 4.1 are without a binding arrangement because individuals and communities do not have an enforceable obligation to central or local governments in return for the transfer of cash, goods or services.

5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:

   (a) If the other Standards specify how to separately recognise 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 transfer consideration or other

[2] As of the issuance date of PBE IPSAS 48, PBE IPSAS 13 *Leases* remains in effect for public sector public benefit entities and has not yet been superseded by PBE IPSAS 43 *Leases*. PBE IPSAS 13 also continues to apply to not-for-profit public benefit entities. Therefore, this Standard references PBE IPSAS 13 rather than PBE IPSAS 43.

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 18–43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

(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 Standard to the entirety of the binding arrangement.

Paragraphs AG2–AG3.1 provide additional guidance on the scope of this Standard.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

For the purposes of this Standard, a <u>binding arrangement</u> is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG11–AG29 provide additional guidance.)

From the perspective of a transfer provider, a <u>capital transfer</u> is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG53 provides additional guidance).

The <u>stand-alone consideration</u> is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.

For the purposes of this Standard, the <u>transfer consideration</u> represents the total amount of resources[3] which an entity expects to transfer.

A <u>transfer expense</u> 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 (paragraphs 8–9 provide additional guidance).

A <u>transfer obligation</u> is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

A <u>transfer obligation liability</u> is the liability recognised for the existence of one or more transfer obligations arising from a binding arrangement.

A <u>transfer provider</u> 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 <u>transfer recipient</u> 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 <u>transfer right</u> is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A <u>transfer right asset</u> is the asset recognised for the existence of one or more transfer rights arising from a binding arrangement.

7. The following terms are defined in PBE IPSAS 47 *Revenue*:

(a) [Not used]

(b) Compliance obligation;

(c) Taxes; and

(d) Third-party beneficiary.

A <u>constructive obligation</u> is defined in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

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[3] In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

Expenses are defined in PBE IPSAS 1 *Presentation of Financial Reports*.

Paragraphs AG4–AG9 provide additional guidance on the definitions in this Standard.

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

Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognised when (or as) the entity's rights from the transfer arrangement are extinguished.[4] For transfers which do not result in the recognition of an asset, a transfer expense is recognised:**

   (a) When the entity loses control of the transferred resources; or

   (b) When the entity has incurred an obligation to transfer resources and recognises a liability for the obligation.

   The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

9. An entity will apply the guidance on recognition and measurement in this Standard as follows:

   (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18–20; and

   (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21–43.

   Paragraph AG10 provides additional guidance on identifying the transfer expense transaction.

Binding Arrangements and Enforceability

10. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.**

11. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

12. A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.

13. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity'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 an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

14. A binding arrangement has at least one obligation because its enforceability holds the entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.

15. When the binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses

[4] The asset may be derecognised at a point in time or over a period of time depending on the terms of the arrangement.

commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

16. A binding arrangement is wholly unsatisfied if both of the following criteria are met:

 (a) The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and

 (b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

 Paragraphs AG11–AG29 provide additional guidance on enforceability and binding arrangements.

Combination of Binding Arrangements

17. An entity 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 objective;

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

 (c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

18. **For transfer expenses without binding arrangements, an entity shall recognise expenses as follows:**

 (a) At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of PBE IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognised provision; or

 (b) If a constructive or legal obligation to transfer resources does not exist (and therefore a provision is not recognised in accordance with paragraph 22 of PBE IPSAS 19), when the entity 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 entity derecognises the resources it ceases to control in accordance with other Standards.

 Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

Measurement

19. **When a provision is recognised in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.**

20. **When an entity recognises an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.**

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

21. **At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:**

 (a) A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or

(b) A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.

Paragraphs AG31–AG34 provide additional guidance on identifying transfer rights.

Recognition of Transfer Expenses

22. When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognised, and a transfer right asset is recognised for the transfer rights arising from the binding arrangement.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

23. Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognised when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35–37).

24. **For transfer expenses with binding arrangements, an entity shall recognise expenses:**

(a) When (or as) a transfer right asset is derecognised; or

(b) When a transfer obligation liability is recognised.

25. The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.

Paragraphs AG35–AG49 provide additional guidance on the recognition of transfer expenses.

Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

26. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances, the entity shall derecognise the transfer right asset and recognise a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with PBE IPSAS 41. (See paragraph 43 for situations where a transfer right asset still exists but is impaired.)

Modifications to a Binding Arrangement

27. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the 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 Standard to the original binding arrangement until the modification to the binding arrangement is approved.

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

(a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31–AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and

(b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

29. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, an entity shall account for the modification to the binding arrangement as

if it were a part of the original binding arrangement. The entity shall determine the accumulated transfer expense to be recognised as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognised shall be recognised in surplus or deficit as at the date of the modification.

Measurement

30. **An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35–37).**

31. **When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.**

32. **When a transfer expense is recognised from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.**

33. **When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.**

34. To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

Variable Consideration

35. The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the entity's obligation to transfer the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it satisfies its obligations in the binding arrangement within a specified period.

36. For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in PBE IPSAS 19.

37. If the entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.

Allocating the Transfer Consideration to Transfer Rights

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**

39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:

    (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or

    (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).[5]

Paragraphs AG50–AG51 provide additional guidance on allocating the transfer consideration to transfer rights.

Changes in the Transfer Consideration

40. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.

41. For a change in transfer consideration that did not arise from a modification to the binding arrangement, an entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognised as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.

42. An entity shall account for a change in the transfer consideration that arises from a modification to the binding arrangement in accordance with paragraphs 27–29.

Impairment of a Transfer Right Asset

43. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. When this occurs, and the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset as noted in paragraph 26, the entity shall assess the transfer right asset for impairment in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

Presentation

44. **For transfer expenses from transactions without binding arrangement, if an entity recognises a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of PBE IPSAS 1.**

45. **For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22–23.**

46. An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of PBE IPSAS 1.

47. When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), the entity presents the financial asset in accordance with the requirements in PBE IPSAS 28 *Financial Instruments: Presentation*.

48. An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of PBE IPSAS 1.

49. As required by paragraph 109 of PBE IPSAS 1, an entity shall present, either on the face of the statement of comprehensive revenue and expense or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. Paragraph 111 of PBE IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programmes, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programmes or purposes for which the transfers were made.

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[5] This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

Disclosure

50. **The objective of the disclosure requirements is for the entity 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 expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:**

    (a) Transfer expenses and related balances (see paragraphs 53–58);

    (b) Transfer arrangements (see paragraphs 59–60); and

    (c) The significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).

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

52. 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 immaterial detail or the aggregation of items that have substantially different characteristics.

Transfer Expenses and Related Balances

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by PBE IPSAS 1. This analysis can be presented on the face of the statement of comprehensive revenue and expense or disclosed in the notes.

    Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

54. In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the material transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programmes, activities, and services.

*55. When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), the entity applies the disclosure requirements for financial assets from PBE IPSAS 30 *Financial Instruments: Disclosures*.

RDR 55.1 When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), an entity applies the disclosure requirements for financial assets from PBE IPSAS 30 that are relevant to Tier 2 entities.

*56. A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortised cost. Therefore, the disclosure requirements from PBE IPSAS 30 for payables are applicable to such liabilities.

RDR 56.1 A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortised cost. Therefore, the disclosure requirements from PBE IPSAS 30 for payables that are relevant to Tier 2 entities are applicable to such liabilities.

*57. If a liability has been recognised for variable consideration (see paragraphs 35–37), an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19.

RDR 57.1 If a liability has been recognised for variable consideration (see paragraphs 35–37), an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19 that are relevant to Tier 2 entities.

*58. For transfers from transactions without binding arrangements, when a liability is recognised for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19.

RDR 58.1 For transfers from transactions without binding arrangements, when a liability is recognised for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19 that are relevant to Tier 2 entities.

Transfer Arrangements

59. An entity shall disclose information about its material transfer binding arrangements, including a description of the following:

(a) The purpose of the transfer binding arrangements;

*(b) Significant payment terms;

(c) The nature of the resources that have been or will be transferred; and

*(d) Significant risks and uncertainties relating to the realisation of transfer right assets.

The above information can be aggregated for binding arrangements that are of a similar nature.

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements that are material, an entity shall disclose the following:

(a) The purpose of the transfer arrangements;

*(b) Significant payment terms, if any; and

(c) The nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature.

Significant Judgements, and Changes in Judgements, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions

61. An entity shall disclose the significant judgements, and changes in judgements, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, an entity shall explain the basis for the recognition of its transfer right assets.

Commencement and Application

62. An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 62.1–62.3. An entity that applies this Standard to an ‘early adoption accounting period’ shall disclose that fact in the notes.

When the Standard takes effect (section 27 Financial Reporting Act 2013)

62.1 This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

62.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

62.3 In paragraph 62.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and

(b) For which the early adopter:

(i) First applies this Standard in preparing its financial report;

(ii) Applies PBE IPSAS 47 *Revenue* at the same time; and

(iii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means 1 January 2029.

63. [Not used]

Transition

64. **An entity shall apply this Standard using one of the following two methods:**

(a) Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or

(b) To each prior reporting period presented in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, as if this Standard had always been applied.

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 48.

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

(a) Scope (paragraphs AG2–AG3);

(b) Definitions (paragraphs AG4–AG9);

(c) Identifying the Transfer Expense Transaction (paragraph AG10);

(d) Binding Arrangements and Enforceability (paragraphs AG11–AG29);

(e) Derecognition of the Transferred Resources (paragraph AG30);

(f) Identifying Transfer Rights (paragraphs AG31–AG34);

(g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35–AG49);

(h) Allocating the Transfer Consideration to Transfer Rights (paragraphs AG50–AG51); and

(i) Presentation and Disclosure (paragraph AG52); and

(j) Application of Principles to Specific Transactions (paragraphs AG53–AG55).

Scope (paragraphs 3–5)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.

AG3. This Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

AG3.1 In delivering services to individuals and communities, central and local governments acquire resources and incur expenses, usually through contracts and other binding arrangements. Examples include the electricity used in delivering street lighting, the salaries paid to acquire the services of teachers, and the acquisition of non-current assets used in delivering those services. These contracts and other binding arrangements are accounted for in accordance with other PBE Standards.

AG3.2 The recognition, measurement and disclosure requirements in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* apply to transfer expense transactions where specified in this Standard. However, the requirements in paragraphs 76–80 of PBE IPSAS 19 (relating to onerous contracts) can never be applicable to transfer expense transactions. This is because the definition of 'onerous contract' explicitly refers to the *exchange* of assets or services.

Definitions (paragraphs 6–7)

Binding Arrangement

AG4. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

Transfer Expense

AG5. This Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which the transfer provider (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organisation, an individual or another entity) without directly receiving any good, service, or other asset in return.

AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset that is received directly from the transfer recipient.

Transfer Obligation and Transfer Obligation Liability

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations. The liability recognised for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

Transfer Recipient

AG8. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organisation, an individual or another entity) that receives a good, service, or other asset from the transfer provider without directly providing any good, service, or other asset to that entity. While the transfer recipient does not provide any good or service to the entity, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the entity.

Transfer Right and Transfer Right Asset

AG9. An entity's transfer right is the enforceable right to have the transfer recipient satisfy its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations within the binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

(a) A transfer right asset is not a good or service;

(b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.

(c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

Identifying the Transfer Expense Transaction (paragraphs 8–9)

AG10. This Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Binding Arrangements and Enforceability (paragraphs 10–16)

Binding Arrangement

AG11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.

AG12. 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.

AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.

AG14. Binding arrangements confer both rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.

Enforceability

AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG17. An arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:

(a) Distinct rights and obligations for each involved party; and

(b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.

AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG20. 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 satisfy the agreed-upon obligations in the arrangement.

AG21. 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 an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.

AG22. 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 Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.

AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity'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 Standard because there is no obligation on the entity 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 the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.

AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with PBE IPSAS 19.

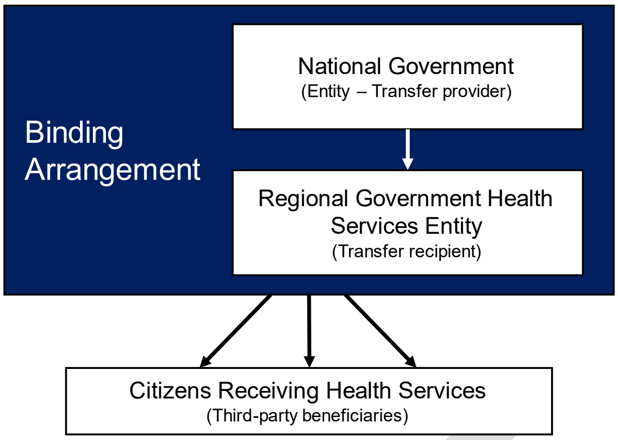
Parties in a Binding Arrangement

AG26. Arrangements in the not-for-profit and public sector may include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. That is, at a minimum, the entity must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:

AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.

AG29. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the entity must have the ability to compel the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the entity because the transfer recipient gains control of the resources from the entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.



Derecognition of the Transferred Resources (paragraphs 18 and 22)

AG30. For both transfer expenses transactions with and without binding arrangements:

(a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;

(b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of PBE IPSAS 41 *Financial Instruments*; and

(c) When the transferred resources are derecognised, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Identifying Transfer Rights (paragraph 21)

AG31. Transfer rights provide the basis of the timing of recognition for transfer expenses. This Standard requires transfer expenses with binding arrangements to be recognised as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

AG32. A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

AG33. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22–25)

Recognition at Inception of a Binding Arrangement

AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.

AG36. Individual transfer rights and transfer obligations are recognised as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs 22–25.

AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognise any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.

AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.

AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgement.

AG41. In some situations, a transfer right asset may be derecognised when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26). A transfer right asset may also be derecognised if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).

AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognised upon the transfer of resources.

Recognition of a Transfer Obligation Liability

AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognises a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognised liability.

AG44. 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 obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.

AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity 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 satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.

AG46. 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.

AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration transferred by the entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liabilities

AG48. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognised, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.

AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognised and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognised as a transfer right asset.

Allocating the Transfer Consideration to Transfer Rights (paragraphs 38–39)

AG50. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).

AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

Presentation and Disclosure (paragraphs 44–61)

AG52. Paragraph 49 requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of comprehensive revenue and expense or disclosed in the notes. To meet this requirement and the disclosure objective in paragraph 50, an entity shall provide sufficient information in the analysis of expenses, along with a description of the nature of the entity's operations and principal activities as required by paragraph 150 of PBE IPSAS 1 *Presentation of Financial Reports*, to enable users to understand how the entity's resources are spent on its programmes, activities and services.

Application of Principles to Specific Transactions

Capital Transfers

AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity 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 gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.

AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21–25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22–25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the entity typically recognises a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

AG55. Some binding arrangements for capital transfers may include a transfer right for the acquisition or construction of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or acquired.

Appendix B

Amendments to Other PBE Standards

An entity shall apply the amendments in this appendix when it applies PBE IPSAS 48.

The amendments to other standards in this appendix are based on the text of those other standards, including any amendments to those standards approved when PBE IPSAS 48 was issued in [Date].

PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Paragraph 17 is amended, and paragraph 72.8 is added. New text is underlined, and deleted text is struck through.

…

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); <u>transfer right assets;</u> goodwill; intangible assets; inventories; property, plant, and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

…

~~Effective Date~~<u>Commencement and application</u>

…

<u>72.8. PBE IPSAS 48, issued in [date], amended paragraph 17. An entity shall apply that amendment when it applies PBE IPSAS 48.</u>

…

PBE IPSAS 12 *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 52.8 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<u> (a transfer expense)</u> or for a nominal charge, for example, educational books produced by a health authority for donation to schools or by a charity for donation to the public. In many 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 cost, adjusted when applicable for any loss of service potential 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 or the rendering of services 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. An 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 an entity 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 recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognised ~~when the goods are distributed or the related service is rendered~~ in accordance with PBE IPSAS 48 *Transfer Expenses*. The amount of any writedown of inventories and all losses of inventories shall be recognised as an expense in the period the writedown or loss occurs. The amount of any reversal of any writedown of inventories shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.**

…

~~Effective Date~~Commencement and application

…

52.8. PBE IPSAS 48 *Transfer Expenses*, issued in [date], amended paragraphs 11, 17, 43 and 44. An entity shall apply those amendments when it applies PBE IPSAS 48.

…

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 2.2 and 11.1–11.3 are deleted and paragraphs 34.1 (and the preceding heading), 34.2 and 112.13 are added. New text is underlined, and deleted text is struck through.

…

Scope

…

2.2 ~~**The Crown shall not apply this Standard in accounting for obligations expressed in legislation that have characteristics similar to an executory contract.**~~[Deleted by NZASB]

…

~~**The Crown**~~

~~11.1 Obligations of the Crown expressed in legislation that have characteristics similar to an executory contract are those where:~~

~~(a) The Crown is obligated to provide goods, services or transfers to the community in future periods using funding to be obtained from the community substantially in those future periods; and~~

~~(b) The intended third party recipients of the goods, services or transfers have not yet satisfied the criteria for entitlement to those goods, services or transfers.~~

~~11.2 These obligations of the Crown have characteristics similar to executory contracts in that the community will, collectively, provide funds to the Crown in the future under tax legislation, and the Crown will, in return, provide goods, services or transfers to the community in the future. Such obligations of the Crown include obligations to make future social welfare payments (such as to pay unemployment, domestic purposes and national superannuation benefits) and to deliver future health and education services, to the extent that the substantial funding of those benefits will be met through future taxation and other revenues and the intended recipients have not already satisfied the criteria for entitlement to those benefits. However, such obligations exclude the obligation of the Crown to fund future payments by the Government Superannuation Fund since the recipients of those future payments have already performed services giving rise to obligations.~~

~~11.3 The exclusion from the application of this Standard of obligations of the Crown that have characteristics similar to an executory contract is not intended to achieve a different result, in terms of the Crown's recognition of liabilities, from the practice followed at the date of introduction of this Standard to recognise liabilities only where the recipients of benefits to be provided in the future have already satisfied the criteria for entitlement to those benefits.~~ [Deleted by NZASB]

…

Recognition

Provisions

…

Recognition of liabilities arising from central and local government existing public policies, budget policies, election promises or statements of intent

34.1 This paragraph and paragraph 34.2 relate to the recognition by a central or local government of a liability arising from a local government or central government existing public policy, budget policy, election promise or statement of intent. The intention of such entities to provide goods, services or cash transfers to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation. A liability would be recognised only when the entity is committed in the sense that it has little or no realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. For example, a present obligation for social welfare payments at the reporting date arises only when the intended recipients have satisfied the criteria for entitlement to those payments for a payment period that occurs before or encompasses the reporting date.

34.2 Under certain circumstances, a legal or constructive obligation may arise from some such transactions or events where the central or local government has little, if any, realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster where, following such an event, a government has issued a clear and formal policy to provide financial aid to victims of that disaster, with such a policy containing sufficiently specific details to have raised a valid expectation in those affected that the government will provide this aid. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.

…

112.13. PBE IPSAS 48 *Transfer Expenses*, issued in [date], added paragraphs 34.1–34.2 and deleted paragraphs 2.2 and 11.1–11.3. An entity shall apply those amendments when it applies PBE IPSAS 48.

Paragraphs BC8–BC16 and the related heading are added. New text is underlined.

Basis for Conclusions

…

PBE IPSAS 48 *Transfer Expenses*

BC8. In May 2023, the IPSASB issued IPSAS 48 *Transfer Expenses*. In [Date], the NZASB issued PBE IPSAS 48 *Transfer Expenses*.

BC9. As discussed in paragraphs BC2–BC3, the NZASB decided to retain the scope exclusion in paragraph 2.2 in relation to certain obligations of the Crown while IPSASB projects relating to social benefits and the development of a conceptual framework were in progress. The IPSASB has since completed both projects.

(a) *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB Conceptual Framework) was issued in October 2014.

(b) IPSAS 42 *Social Benefits* was issued in January 2019.

BC10. In addition to the abovementioned projects, in January 2020, the IPSASB issued *Collective and Individual Services (Amendments to IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets*). This amending standard complements IPSAS 42 and adds application guidance paragraphs to IPSAS 19 which:

(a) define collective and individual services[6] and explain how they differ from social benefits; and

(b) specify that no provision is to be recognised for a government's intention to provide collective services or individual services. The rationale for this accounting treatment is that these services are ongoing activities of a government, and no provision is recognised for ongoing activities.

BC11. The NZASB issued the *Public Benefit Entities' Conceptual Framework,* based on the IPSASB Conceptual Framework, in May 2016. However, the NZASB decided not to develop a PBE Standard using IPSAS 42 as a starting point, nor to develop a domestic standard on the topic of social benefits[7]. Instead, social benefit transactions are included within the scope of PBE IPSAS 48. Likewise, the NZASB decided not to develop amendments to PBE IPSAS 19 using *Collective and Individual Services* as a starting point, as such a development would likely not lead to significant improvements in the quality of financial reporting by public benefit entities and the costs of implementation would likely outweigh the benefits.

BC12. In light of the decisions noted in paragraph BC11 above, as well as the development of PBE IPSAS 48, the NZASB reviewed the continuing relevance of the existing scope exclusion relating to certain obligations of the Crown as well as the associated guidance in paragraphs 11.1–11.3. The NZASB decided that it would be redundant to retain this scope exclusion and associated guidance because the scope of PBE IPSAS 48 includes social welfare payments and services provided by the central and local governments, when these transactions meet the definition of a transfer expense. Consequently, the NZASB deleted paragraphs 2.2 and 11.1–11.3.

BC13. The Board considered whether authoritative guidance should be added to PBE IPSAS 19, to replace the abovementioned deleted paragraphs. The Board decided that it would be useful to add authoritative guidance to PBE IPSAS 19 to address the relevant principles that apply to the transactions contemplated in the scope exclusion because:

(a) the abovementioned transactions, when in scope of PBE IPSAS 48, are accounted for as transactions without binding arrangements. This is because individuals and communities do not have an enforceable obligation to central and local governments in return for the resources.

(b) for transactions without binding arrangements, PBE IPSAS 48 requires entities to consider whether there is a legal or constructive obligation which gives rise to a provision under PBE IPSAS 19. In the absence of the existing scope exclusion (and the associated guidance in paragraphs 11.1–11.3), there is no specific application guidance that would apply to these transactions. Developing such

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6 Collective services are those provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole. Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

7 See paragraphs BC8–BC20 in PBE IPSAS 48 for the basis for conclusions for these decisions.

authoritative guidance for inclusion in PBE IPSAS 48 may be useful to entities in making judgements on whether or not a legal or constructive obligation exists.

BC14. In developing the authoritative guidance referred to in paragraph BC13 above, the NZASB considered the following.

(a) The principle in paragraph 25 in PBE IPSAS 19 – that is, … *for an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only (a) where settlement of the obligation can be enforced by law; or (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.*

(b) The requirements in IPSAS 42.

(c) The authoritative guidance in paragraphs Aus26.1–Aus26.2 in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. This guidance addresses the recognition of liabilities arising from local government or government existing public policies, budget policies, election promises or statements of intent and explicitly states that such a liability *would be recognised only when the entity is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits.*

BC15. The NZASB decided to follow a similar approach to the AASB, because:

(a) paragraphs Aus26.1–Aus26.2 contain authoritative guidance drawing on the principles of AASB 137; and

(b) these principles are substantively aligned with those in PBE IPSAS 19, in particular, with the principle noted in paragraph BC14(a).

BC16. Consequently, the NZASB added paragraphs 34.1–34.2. These paragraphs were developed using paragraphs Aus26.1–Aus26.2 as a starting point, with modifications to suit the New Zealand context and to align with the specific wording used in paragraph 25 in PBE IPSAS 19.

The footnote to paragraph BC2 is deleted.

* ~~The IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in October 2014, and the NZASB issued the *Public Benefit Entities' Conceptual Framework* in May 2016.~~

PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraph 62.9 is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

…

~~Effective Date~~Commencement and application

…

62.9. PBE IPSAS 48 *Transfer Expenses*, issued in [date], amended paragraph AG23. An entity shall apply that amendment when it applies PBE IPSAS 48.

Application Guidance

…

Definitions (paragraphs 9–12)

Financial Assets and Financial Liabilities

…

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with PBE IAS 12 *Income Taxes*.
- Obligations to provide social welfare ~~benefits~~payments are accounted for in accordance with ~~PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* and PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*~~ PBE IPSAS 48 *Transfer Expenses*.
- Other statutory obligations are accounted for in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

…

PBE IPSAS 40 *PBE Combinations*

Paragraphs IE164, IE265, IE264 and IE265 are amended, and paragraph IE266 is deleted. New text is underlined, and deleted text is struck through.

…

Illustrative Examples

…

Accounting for Amalgamations

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of PBE IPSAS 40

…

IE164. The grant was subject to a condition that the grant 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 recognised a liability of CU350 in respect of its performance obligation, in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. ~~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 recognise an asset in respect of the grant, but accounted for the full CU700 as an expense.~~ Upon the transfer of funds, COA recognised a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognises CU350 of the transfer right asset and recognises the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses. ~~The resulting entity does not recognise a liability for the CU350, but instead recognises this amount in net assets/equity.~~

…

IE264. The grant was subject to a condition that the grant 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 recognised a liability of CU600 in respect of its performance obligation, in accordance with PBE IPSAS 23. ~~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 recognise an asset in respect of the grant, but accounted for the full CU800 as an expense.~~ Upon the transfer of funds, AE recognised a transfer right asset for its right to have TE deliver the training courses. Immediately prior to the acquisition, based on TE's performance to date, AE derecognises CU200 of the transfer right asset and recognises the amount as a transfer expense.

IE265. In this example, ~~AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition,~~ AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party or the enforceable right to have an external party deliver training courses.

IE266. ~~In this example, no corresponding asset had been recognised by AE; if AE had previously recognised a corresponding asset, this would be derecognised at the acquisition date, and the derecognised amount would be included in the calculation of the gain or loss.~~[Deleted by IPSASB]

…

XRB A1 *Application of the Accounting Standards Framework*

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs.

Accounting standards

(…)	
PBE IPSAS 41	*Financial Instruments*
PBE IPSAS 48	*Transfer Expenses*
PBE IFRS 4	*Insurance Contracts* (superseded on adoption of PBE IFRS 17 for not-for-profit entities)
(…)	

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 48.

Background: IPSAS 48 *Transfer Expenses*

BC1. In May 2023, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 48 *Transfer Expenses*. IPSAS 48 sets out the accounting requirements for a major area of expenditure for governments and other public sector entities. Prior to IPSAS 48, there was no explicit guidance on how to account for transfer expenses in the IPSASB's literature. This lack of guidance led to ambiguity and potential inconsistencies in the accounting for transfer expenses, as constituents needed to develop their own accounting policy for these transactions.

BC2. Under IPSAS 48, the transfer provider's accounting for transfer expenses is driven by whether the transaction results in an enforceable right to have the transfer recipient satisfy their obligations. Such an enforceable right is recognised as an asset and subsequently expensed as the enforceable right is extinguished.

BC3. The identification of whether the transaction arises from a binding arrangement impacts the determination of whether the transaction results in the recognition of an asset, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria. IPSAS 48 introduces two accounting models: one for transfer expenses with binding arrangements and one for transfer expenses without binding arrangements. IPSAS 48 includes comprehensive guidance for an entity to determine whether their transaction arises from a binding arrangement and, consequently, which accounting model in the Standard to apply.

NZASB decision to develop PBE IPSAS 48 *Transfer Expenses*

BC4. Following the issue of IPSAS 48, the New Zealand Accounting Standards Board (NZASB) decided to develop a PBE Standard using IPSAS 48 as a starting point. The NZASB noted that developing such a PBE Standard would be in accordance with New Zealand's Accounting Standards Framework. The NZASB also noted the following:

(a) The IPSASB's reasons for developing IPSAS 48, as described in paragraph BC1 above, also justify the introduction of these requirements into PBE Standards.

(b) The concept of a 'binding arrangement' is prevalent throughout IPSAS literature, most notably in IPSAS 47 *Revenue*[1]. As PBE Standards are primarily based on IPSAS, developing a PBE Standard using IPSAS 48 as a starting point would enhance the coherence of the suite of PBE Standards, whereas not doing so would negatively impact on coherence.

(c) The accounting for transfer expenses is a topic which primarily concerns public benefit entities and there is no specific for-profit accounting standard for this topic. Developing a PBE Standard using IPSAS 48 as the starting point is, therefore, likely to have a neutral impact on mixed groups.

(d) The expected costs to be incurred by constituents include those predominately occurring upon transition to PBE IPSAS 48 (such as the investment of time and resources into understanding the new accounting requirements) as well as those that are expected to occur on an ongoing basis (such as the need to apply significant judgement in the application of the principles to each new binding arrangement, or when a binding arrangement is modified). The NZASB considers that the benefits of developing a PBE Standard using IPSAS 48 as the starting point, as described in paragraph BC4(a)–(b) are expected to exceed these costs.

BC5. In developing PBE IPSAS 47 *Revenue* and PBE IPSAS 48, the NZASB received feedback from a PBE Working Group, consisting of individuals with a practical accounting background in public sector and not-for-profit reporting. The objective of this group was for members to share their practical insights and expertise in the public and not-for-profit sectors to assist the NZASB with the development of PBE IPSAS 48 and PBE IPSAS 47. Through discussions with the PBE Working Group and other work performed to understand the New Zealand jurisdictional framework and legal context, the NZASB

[1] A PBE Standard developed using IPSAS 47 as a starting point has been exposed for comment at the same time as ED PBE IPSAS 48.

concluded that the fundamental accounting principles in IPSAS 48 were generally appropriate for application by both public sector and not-for-profit public benefit entities in New Zealand.

BC6. Following its review of the fundamental accounting principles in IPSAS 48, the NZASB considered the nature and extent of modifications to be made to IPSAS 48 to ensure that PBE IPSAS 48 is fit-for-purpose in New Zealand. The NZASB consulted the PBE Working Group on existing issues with the accounting for revenue and transfer expenses in practice, as well as potential implementation issues relating to the requirements in IPSAS 48. The NZASB also considered comments from New Zealand constituents on the IPSASB ED 72 *Transfer Expenses* (which was issued for public consultation in 2020) as well as the adoption status of other IPSASs in New Zealand (such as IPSAS 42 *Social Benefits*). Some of the resulting modifications to IPSAS 48 are relatively minor, to ensure coherence within the suite of PBE Standards (e.g., aligning terminology with other PBE Standards) as well as to ensure the not-for-profit context is acknowledged within PBE IPSAS 48. Additionally, disclosure concessions for Tier 2 public benefit entities have been included. The more substantive modifications considered or made by the NZASB in developing PBE IPSAS 48 are outlined in paragraphs BC7–BC28.

Scope modification: social welfare payments to individuals and the delivery of services to individuals and communities by central and local governments

BC7. The NZASB did not retain the scope exclusion in IPSAS 48 relating to social benefits as defined in IPSAS 42 *Social Benefits*. Consequently, social benefit transactions are within the scope of PBE IPSAS 48 if they meet the definition of a transfer expense. This decision is explained further in paragraphs BC8–BC20 below.

The NZASB's decision on IPSAS 42

BC8. IPSAS 42 defines social benefits[2] and includes requirements for the recognition and measurement of social benefit transactions. IPSAS 42 also includes disclosure requirements that will provide additional information that users may need to evaluate the effect that social benefits have on a government's finances.

BC9. At the time IPSAS 42 was issued in January 2019, the IPSASB had not yet completed other related projects dealing with non-exchange expenses – specifically, its projects on Transfer Expenses and Collective and Individual Services. Therefore, when IPSAS 42 was issued, the NZASB decided to defer its decision on whether to develop a PBE Standard using IPSAS 42 as a starting point, until those other projects were completed. Similarly, when the IPSASB issued the amending standard *Collective and Individual Services (Amendments to IPSAS 19)* in January 2020, the NZASB also decided to defer its decision on whether to develop equivalent amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* until the project on Transfer Expenses was completed[3].

BC10. Once IPSAS 48 was issued in May 2023, the NZASB revisited the decision on whether or not to develop a PBE Standard using IPSAS 42 as a starting point. The NZASB decided not to do so, as such a development would likely not lead to significant improvements in the quality of financial reporting by public benefit entities.

BC11. In line with its established due process, upon deciding not to develop a PBE Standard using IPSAS 42 as a starting point, the NZASB was required to consider what, if any, action(s) it planned to take in relation to the IPSAS – specifically, whether a domestic standard would be developed and whether parts of the IPSAS would be incorporated into that domestic standard. The NZASB decided that the costs to implement such a domestic standard would outweigh the benefits of doing so. In making this decision, the NZASB took the following into account.

(a) The absence of a specific PBE Standard for social benefits has not resulted in significant diversity in accounting practice.

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2 Social benefits are cash transfers provided to: (a) specific individuals and/or households who meet eligibility criteria; (b) mitigate the effect of social risks; and (c) address the needs of society as a whole.

Social risks are events or circumstances that: (a) relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and (b) may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

3 Refer to the Basis for Conclusions in PBE IPSAS 19 for further discussion on *Collective and Individual Services (Amendments to IPSAS 19)*.

(b) No concerns with the existing reporting of social benefits in New Zealand have come to the NZASB's attention.

Decision to include social benefit transactions within the scope of PBE IPSAS 48

BC12. Currently, in the absence of a specific PBE Standard for social welfare payments and services provided by central and local governments (hereafter referred to as 'social benefit transactions'), public sector entities entering into such transactions followed the requirements of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an appropriate accounting policy. In developing such a policy, entities were required to consider first the applicability of the requirements in PBE Standards dealing with similar and related issues. Currently, PBE IPSAS 19 is the PBE Standard which deals with 'similar and related issues' to social benefit transactions. However, the development of PBE IPSAS 48 required the NZASB to consider whether this Standard:

(a) is more appropriate to be used as a basis for an accounting policy for social benefit transactions; or

(b) in the absence of a specific scope exclusion, would be directly applicable to social benefit transactions.

BC13. The NZASB considered how the requirements in PBE IPSAS 48 would apply to social benefit transactions and concluded that:

(a) Social benefit transactions would typically meet the definition of a transfer expense.

(b) Such transactions would be without binding arrangements because individuals and communities do not have an enforceable obligation to central or local governments to deliver cash, goods or services in return for the resources received.

(c) For transfer expenses without binding arrangements, an entity must consider whether there is a legal or constructive obligation to transfer resources which results in the recognition of a provision in accordance with paragraph 22 of PBE IPSAS 19. Such a provision would be initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.

BC14. The NZASB considers that current accounting practice in New Zealand with respect to social benefit transactions is unlikely to change significantly as a result of applying the requirements of PBE IPSAS 48. This is an appropriate outcome, for the reasons noted in paragraph BC11(a)–(b). Therefore, the NZASB decided not to include a scope exclusion similar to the one in IPSAS 48 (as noted in paragraph BC7).

Addition of explanatory paragraphs

BC15. To emphasise the application of PBE IPSAS 48 to social benefit transactions – and how the fundamental principle of a 'binding arrangement' applies to these transactions – the NZASB added paragraphs 4.1–4.2. These paragraphs clarify that such transactions are included within the scope of the Standard when they meet the definition of a transfer expense and are accounted for as transactions without binding arrangements.

BC16. Paragraphs 4.1–4.2 reference the delivery of services to individuals and communities by central and local governments, since such transactions would likely be within the scope of PBE IPSAS 48. However, central and local governments would typically acquire resources and incur expenses through contracts and other binding arrangements in order to deliver these services. These contracts and other binding arrangements would be accounted for in accordance with other PBE Standards. To clarify this, the NZASB added paragraph AG3.1.

Consideration of the disclosure requirements in IPSAS 48 (as they would apply to social benefit transactions)

BC17. IPSAS 48 was not developed with social benefit transactions in mind. Therefore, the NZASB considered whether the presentation and disclosure requirements in IPSAS 48 are appropriate in the context of social benefit transactions in New Zealand. As noted in paragraph BC11, the NZASB is not aware of any concerns with the existing reporting of these transactions (which includes presentation and disclosure).

BC18. In accordance with legislative requirements and the service performance reporting requirements within PBE Standards, information on social benefit transactions is reported in the annual reports of relevant public sector agencies. However, the NZASB noted that only the New Zealand Government (i.e. the Crown) presents and discloses this information (in particular, around social welfare payments) within the scope of its annual financial statements. The NZASB considered the disclosure requirements in IPSAS 48 that would apply to social benefit transactions and concluded that most of those requirements are either:

(a) consistent with presentation and disclosure requirements in other PBE Standards; or

(b) aligned with the information presented or disclosed in the Crown annual financial statements in accordance with NZ Treasury's accounting policies.

BC19. The NZASB identified two disclosure requirements which would require additional information on social benefit transactions to be disclosed in the Crown annual financial statements.

(a) Paragraph 54 – which requires an entity to provide qualitative and quantitative information on significant transfers arising from transactions with and without binding arrangements.

(b) Paragraph 60 – which requires an entity to disclose the purpose of its transfers without a binding arrangement as well as significant payment terms (if any) and the nature of the resources that have been (or will be) allocated.

BC20. The NZASB noted that including this additional information on social benefit transactions in the Crown annual financial statements may add significant length to the financial statements for potentially little benefit, since users may already have access to much of this information through other sources. Therefore, the NZASB considered the following options.

(a) *Exempt preparers from making these disclosures with respect to social benefit transactions*. This would effectively be a Crown-specific scope exclusion, as it is only in the Crown annual financial statements that information about social benefit transactions can be found. For this reason, the NZASB did not consider this to be an appropriate course of action to take.

(b) *Permit cross-referencing from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time.* This option would be helpful to those users who have never engaged with the information available in those other sources, while limiting the additional information to be included in the financial statements. However, the NZASB considers it important that the financial statements be complete – that is, they should include all material information, rather than incorporate this information through cross-referencing.

(c) *Emphasise the application of materiality to the judgements on the nature and extent of the disclosures required under PBE IPSAS 48*. The NZASB considered this to be the most appropriate course of action to take to limit the disclosure of information in excess of what users require. The NZASB noted that paragraphs 51–52 in IPSAS 48 refer entities to the requirements in IPSAS 1 *Presentation of Financial Statements* which provide guidance on materiality and aggregation. IPSAS 1 is equivalent to PBE IPSAS 1 *Presentation of Financial Reports* in this regard. The NZASB decided not to incorporate those requirements in PBE IPSAS 1 into PBE IPSAS 48, because paragraphs 51–52 already contain some of the key points from that Standard that entities should consider in making their materiality judgements. However, to further emphasise the need to apply materiality judgements to the nature and extent of disclosures required under PBE IPSAS 48, the NZASB decided to:

(i) add the word 'material' to paragraphs 59 and 60; and

(ii) replace the word 'significant' with the word 'material' in paragraphs 52 and 54. 'Material' is a defined term in PBE Standards, whereas 'significant' is not defined in any PBE Standard. Similarly, the NZASB decided to replace the word 'insignificant' with the word 'immaterial' in paragraph 52. In contrast, the NZASB did not replace references to 'significant payment terms' and 'significant judgements' where they appear in PBE IPSAS 48. Such terms appear in other PBE Standards, as well as in the for-profit suite of standards and the NZASB does not wish to imply that the meaning of these terms in PBE IPSAS 48 differs from the meaning in those other Standards.

Appropriations

BC21. The NZASB discussed the requirements relating to appropriations in IPSAS 48 (contained in the Implementation Guidance Section B.3. as demonstrated in Illustrative Example 4). It was noted in Implementation Guidance Section B.3 that appropriations are defined in IPSAS 24 *Presentation of Budget*

Information in Financial Statements as an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds for purposes specified by the legislature or similar authority. IPSAS 24 does not form part of PBE Standards.

BC22. The NZASB decided to:

(a) remove the reference to the appropriations definition in IPSAS 24 from PBE IPSAS 48 Implementation Guidance Section B.3.

(b) align the description of appropriations with the New Zealand legislative framework by rewording the description as "an authorisation granted by a legislative body (i.e. the enabling authority) to ~~allocate funds~~ incur expenses or capital expenditure for the purpose specified by the legislature or similar authority" – i.e. removing the struck-through words and adding the underlined words.

BC23. Additionally, the NZASB noted that 'appropriation' is not defined in PBE Standards but that the interpretation of the term should be consistent with its assigned meaning under New Zealand legislation, specifically per the Public Finance Act 1989.

Other modifications to IPSAS 48

BC24. The NZASB made the following additional modifications to IPSAS 48:

Definition of a binding arrangement

BC25. IPSAS 48 does not include a definition for 'binding arrangement'. Instead, IPSAS 48 refers entities to IPSAS 47 for this definition. The NZASB decided to include the definition in PBE IPSAS 48, due to the importance of the binding arrangement principle in the accounting for transfer expenses and to minimise the need for entities to refer to other PBE Standards to understand the requirements in PBE IPSAS 48.

Application of the onerous contract accounting requirements to transfer expense transactions

BC26. The definition of an 'onerous contract' explicitly refers to the exchange of assets or services. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that a transfer expense could not meet the definition of an 'onerous contract'. Therefore, the IPSASB decided not to add an explicit scope exclusion to IPSAS 48.

BC27. In feedback to the IPSASB on ED 72, the NZASB and one New Zealand constituent questioned what the transfer provider would do if the binding arrangement became onerous. In light of this feedback, the NZASB decided that the implicit scope exclusion could be made clearer for New Zealand stakeholders and therefore added paragraph AG3.2.

Amendment to paragraph 18 – concerning the recognition of transfer expenses from transactions without binding arrangements

BC28. The NZASB noted that paragraph 18(b) could be more explicit in stating that if no provision is recognised, then an expense is recognised when the entity ceases to control the resources. Therefore, NZASB modified paragraph 18(b) as follows (additional wording underlined) – *if a constructive or legal obligation to transfer resources does not exist (and therefore a provision is not recognised in accordance with paragraph 22 of PBE IPSAS 19), when the entity ceases to control the resources;…*

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 48.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a 'capital transfer'?

It depends on what the binding arrangement requires the transfer recipient to do with the asset.

A transfer of a physical asset is a 'capital transfer' if the entity transfers the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to use the physical asset received to acquire or construct another non-financial asset that it will subsequently control. A transfer of a physical asset which only has a requirement to be used or operated in specific manner would not meet the definition of a 'capital transfer'.

Section B: Identifying the Transfer Expense Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public benefit entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of transfer expenses to ensure fair presentation of such transactions.

Correctly identifying whether or not the transfer expense transaction arises from a binding arrangement is integral to correctly applying this Standard. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its transfer expense transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 10–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Transfers Subject to Appropriations

Can an appropriation give rise to a transfer expense?

An appropriation is an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority.

An appropriation itself typically does not result in an accounting event or transaction. However, like other transfers that do not arise from a binding arrangement, there may be situations when an appropriation, in combination with external announcements or other communications, may create a valid expectation with other parties that the entity which approved the allocation of funds is accepting and discharging certain responsibilities. In these situations, PBE IPSAS 19 *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognised if a legal or constructive obligation exists. If an appropriation does not give rise to a legal or constructive obligation, the entity accounts for the subsequent transfer by applying the principles in this Standard.

How should an entity consider the impact of appropriations on its transfer expense transactions arising from binding arrangements?

Appropriations on their own do not prove, nor refute, the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred to a transfer recipient by an entity are subject to an appropriation process being completed by an unrelated third-party in accordance with the laws and regulations in the jurisdiction. The entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity.

If the limitation (that the resources to be transferred are subject to an appropriation) has substance, the arrangement is not enforceable and thus not a binding arrangement, as the transfer recipient cannot establish an enforceable right to those resources before the appropriation process is completed.

In other circumstances, a transfer that is subject to appropriations could still be enforceable if the arrangement is set up in a way that the mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the appropriation process being completed.

In some jurisdictions, the authorisation 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 an entity;

(b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the entity 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 completion of an appropriation process.

The enabling authority, together with the exercise of that authority, may be sufficient for an entity to conclude that the transfer recipient has an enforceable right to those resources in the arrangement that enables the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose non-compliance requirements on the entity, prior to the completion of the appropriation process. In such circumstances, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when an entity has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 7. If it meets the definition, the entity accounts for the transfer expense arising from the binding arrangement in accordance with paragraphs 21–43.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with this Standard, PBE IPSAS 19 or PBE IPSAS 41 *Financial Instruments*.

Section C: Transfer Expenses from Transactions without Binding Arrangements

C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements

When the entity transfers resources in a transaction without binding arrangements, is it possible for the transfer to result in the recognition of a transfer right asset?

No. Because a transfer right asset is defined as an asset recognised for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognise a transfer right asset without a binding arrangement.

However, it is possible for an entity to have an enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) without an enforceable obligation as the result of a transfer expense transaction without binding arrangements. In such cases, the transfer would result in the recognition of an asset which would be derecognised when or as the enforceable right is extinguished.

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

How does an entity determine the individual transfer rights in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgement as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

An entity should first identify all the rights to require the transfer recipient to satisfy its compliance obligation(s) in a manner as specified in the binding arrangement. In the context of a binding arrangement for transfer expenses, rights include the ability to require the transfer recipient to use resources for a good or service internally or to transfer a good, service, or other asset (which could include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

An entity then considers each identified right to determine if a right is itself a distinct transfer right, or whether it should be grouped with other rights to be a single distinct transfer right. Thus, a transfer right is a unit of account that represents a distinct right or group of rights to which recognition criteria and measurement concepts are applied (paragraphs 22-43).

A right in a binding arrangement is distinct if it can be enforced separately from other rights in the arrangement. An entity considers the following factors when assessing whether a right is distinct:

(a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;

(b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and

(c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

Any distinct right, or distinct group of rights, identified by the entity through this analysis would be an individual transfer right.

Section E: Recognition of Transfer Expenses from Transactions with Binding Arrangements

E.1 Derecognition of a Transfer Right Asset

An entity has determined that it has one transfer right which is extinguished over time. How does the entity determine a measure of progress that best depicts the extinguishment of its transfer right?

In general, a transfer right is extinguished (and the related transfer right asset is expensed) when or as an entity can no longer require the transfer recipient to act in accordance with the binding arrangement. This often occurs when or as the transfer recipient has satisfied its obligations in the arrangement, so the appropriate method of measuring progress depends on the specific nature of the entity's transfer rights and the specific terms of the binding arrangement. In situations where the binding arrangement consists of one transfer right to have the transfer recipient satisfy various interrelated activities, the transfer right may be partially extinguished as individual activities are being performed by the transfer recipient. Common considerations which could inform when a transfer right has been partially extinguished include:

(a) The transfer recipient has performed activities specified in the binding arrangement;

(b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and

(c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognise its transfer right assets.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred cash). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the transfer right asset is not derecognised, and the entity then considers if the asset has been impaired (see paragraph 43). This topic is further illustrated in Illustrative Example 8 (see paragraphs IE42-IE48).

Section F: Measurement of Transfer Expenses from Transactions with Binding Arrangements

F.1 Allocating the Transfer Consideration to Transfer Rights

How should a public benefit entity determine a suitable method for estimating the stand-alone consideration of a transfer right?

Generally, an entity would want to explicitly specify in a binding arrangement the amount of resources it is willing to transfer for each transfer right (i.e., the stand-alone consideration is typically specified for each transfer right). In situations where the stand-alone consideration is not explicitly stated, the Standard requires an entity to determine the best estimate of the amounts that it intends to compensate the transfer recipient for satisfying its obligation when negotiating the binding arrangement.

The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the entity. For example, the individuals negotiating a binding arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for specific transfer rights included in the binding arrangement. Other entities may have detailed internal budget information documenting the resources it is willing to pay for each specific transfer right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the transfer recipient to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each transfer right.

Section G: Multi-Year Arrangements

G.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognise transfer expenses from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (e.g., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in paragraphs 18–20 for transfer expenses arising without binding arrangements, or paragraphs 21–43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are physically transferred.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 48.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in PBE IPSAS 48 *Transfer Expenses* to particular transfer expense transactions, based on the given facts. 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 presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying PBE IPSAS 48.

Scope

IE2. Examples 1–2 illustrate the requirements in paragraphs 3–5 of PBE IPSAS 48 on the determination of whether a transaction is within the scope of PBE IPSAS 48.

Example 1: Transfer Where the Other Party Provides Goods and Services

IE3. A not-for-profit entity (the NFP) enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.[11] 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 NFP

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the NFP.

IE5. The binding arrangement does not give rise to a transfer expense of the NFP, as the NFP directly 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 PBE IPSAS 48. The NFP applies PBE IPSAS 17 *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

Case B – Vehicle is Provided to a Community Group

IE6. In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a community group (a third-party beneficiary) rather than to the NFP.

IE7. The binding arrangement gives rise to a transfer expense of the NFP, as the NFP transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the third-party beneficiary.) The NFP (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

Example 2: Research Grants

IE8. The central government enters a binding arrangement with a university whereby the central government will provide the university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

Case A—Central Government Controls Research

IE9. The binding arrangement includes a requirement that the university will transfer the results of the research to the central government, including rights to any intellectual property and/or patents created.

IE10. The binding arrangement does not give rise to a transfer expense of the central government, as the central government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of PBE IPSAS 48. The central government applies PBE IPSAS 31 *Intangible Assets*, in accounting for the binding arrangement.

[11] In these examples, monetary amounts are denominated in 'currency units' (CU).

Case B—University Controls Research

IE11. The binding arrangement does not require the university to transfer the results of the research to the central government. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.

IE12. The binding arrangement gives rise to a transfer expense of the central government, as the central government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The central government (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Binding Arrangements and Enforceability

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10–16 of PBE IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

IE14. A local government is required under its constitution to undertake various social programmes; however, it has insufficient resources to undertake these programmes without assistance. The central government decides to transfer CU10 million of surplus funds to the local government to assist with its social programmes. The details of the transfer are documented in a "funding agreement." However, the agreement only results in an obligation for the central government to transfer funds and does not provide the central government with any rights to compel the local government to act in a specific manner.

IE15. Since the agreement does not confer both rights and obligations to the central government, it is not a binding arrangement. The central government shall apply the accounting principles in paragraphs 18–20 to account for the transfer.

Example 4: Agreement for Transfer Subject to Completion of the Appropriations Process

IE16. The central government has a financial year end of 30 June. On 15 September 20X1, the central government (the transfer provider) enters into an 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. CU10 million is to be transferred in the 20X2 financial year, and the remaining CU5 million to be transferred in the 20X3 financial year. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.

IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million on 31 March 20X2 and the central government immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in the 20X2 financial year but will be considered in the following year as part of the appropriation process for the 20X3 financial year.

IE18. In determining the effect of the appropriation on the arrangement, the central government considers substance over form, in accordance with paragraphs 10–16 and AG11–AG25.

Case A – Requirement to Complete the Appropriation Process has Substance

IE19. The reduction in air pollution is a local government responsibility, and there is no authorising legislation that requires the central government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.

IE20. The central government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in the 20X2 financial year and CU5 million in the 20X3 financial year) until the appropriation process is completed. Consequently, in the 20X2 financial year, the central government only recognises an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to 31 March 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the central government would instead recognise a transfer right asset of CU10 million.

IE21. On 31 October 20X2, parliament completes the appropriation process for the remaining CU5 million. At this date, the central government applies paragraphs 21–26 of PBE IPSAS 48 to assess the accounting implications for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

IE22. In this scenario, the reduction of air pollution is a priority of both the central and local governments, and there is legislation in place which requires the central government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the central government is required by law to complete the appropriation for the CU15 million transfer.

IE23. The central government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the central government is required by law to complete the appropriation for the CU15 million transfer. Upon execution of the binding arrangement, the central government applies paragraphs 21–26 of PBE IPSAS 48 in determining when to recognise a transfer right asset or a transfer expense.

Transfer Expenses from Transactions with Binding Arrangements

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of PBE IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

IE25. A local government enters into a binding arrangement with Entity A, for Entity A to build a new community centre. Under the terms of the binding arrangement, Entity A has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the local government applies paragraphs 21, AG31–AG34 and considers the factors discussed in Implementation Guidance D.1 of PBE IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

IE27. Without the context of the overall arrangement, the rights to have Entity A perform the individual activities such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a new community centre.)

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of PBE IPSAS 48, the local government aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

IE29. A local government office (Local Government) enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a university in the region (the University, the third-party beneficiary) over a two-year period:

(a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programmes);

(b) Website-related services;

(c) Unspecified software updates for security purposes; and

(d) Technical support (online and telephone) to the University's faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

IE31. The Local Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of PBE IPSAS 48. In making this assessment, the Local Government applies the guidance in paragraphs AG31–AG34 of PBE IPSAS 48.

IE32. The Local Government observes that:

(a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;

(b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the licence and services can be separately enforced; and

(c) The goods or services are neither highly interdependent nor highly interrelated. The Local Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.

IE33. The Local Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralise the University's purchasing process and potentially negotiate a discount by bundling the licence with services.

IE34. On the basis of the above assessment, the Local Government identifies four transfer rights in the binding arrangement for the following goods or services:

(a) The productivity software;

(b) Website-related services;

(c) Security updates; and

(d) Technical support.

Recognition of Transfer Expenses

IE35. Examples 6–8 illustrate the requirements in paragraphs 22–25 on the overall accounting model for transfer expenses from transactions with binding arrangements:

(a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;

(b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

(c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of PBE IPSAS 48.

Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition

IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a local government office (the Local Government) entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to a university in the region (the University). In Examples 5 and 10, the Local Government determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:

(a) The productivity software for CU6 million;

(b) Website-related services for CU2 million;

(c) Security updates for CU3 million; and

(d) Technical support for CU1 million.

IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Local Government (i.e., the Local Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.

IE38. The Local Government recognises the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognised based on the nature of each transfer right:

(a) Productivity software – The Local Government observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software licence was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;

(b) Website-related services – The Local Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognise CU2 million of the transfer right asset while recognising a transfer expense over time during the two-year period (e.g., amortising CU83,333 into expenses each month over the two-year period);

(c) Security updates, and technical support services – The Local Government's remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognise the CU4 million while recognising a transfer expense over time during the two-year period. (e.g., amortising CU166,667 into expenses each month over the two-year period).

Example 7: Recognition of a Transfer Obligation Liability

IE39. A not-for-profit entity (the NFP) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide health and safety booklets to public primary schools in the city (Schools, the third-party beneficiaries) as part of the Schools' health and safety courses for Years 1–3. The binding arrangement specifies that the NFP will pay the Publisher CU15 per booklet, and the number of booklets to be provided will be based on enrolment numbers for Years 1–3, which will be finalised a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the NFP will provide the enrolment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the booklets to the Schools at least two weeks before the start of the school year, and the NFP will pay the remaining consideration for the booklets provided within 30 days after the Schools have received the shipments.

IE41. Upon finalisation of student enrolment, the enrolment numbers were provided to the Publisher, and 19,800 booklets were shipped to the Schools. To account for this binding arrangement, the NFP applies paragraphs 22–25 of PBE IPSAS 48:

(a) Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.

(b) A month before the school year begins, the NFP provides the enrolment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the NFP recognises a transfer right asset of CU29,700 (CU15 × 19,800 books × 10%):

Transfer right asset	CU29,700	
Cash		CU29,700

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the booklets to the Schools, and the NFP's right to have the booklets delivered has been extinguished. The NFP derecognises the transfer right asset of CU29,700 and records the amount as a transfer expense. In addition, the NFP also recognises a transfer obligation liability and a transfer expense for the unpaid consideration of CU267,300 (CU15 × 19,800 books – CU29,700 deposit) based on the terms of the binding arrangement:[12]

Transfer expense	CU267,300	
Transfer right asset		CU29,700
Transfer obligation liability		CU237,600

Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a company that operates a number of private clinics in a region (the Company). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of CU1 million to the Company for the Company to operate a vaccination programme and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Company is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

IE43. The binding arrangement specifies that if the Company stops administrating the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Company is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Company has spent the funds on acquiring the vaccinations. (e.g., if the Company purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination programme, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) However, the binding arrangement also specifies that the Company is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

Case A – The Company Decides to Stop the Vaccination Programme

IE44. Upon paying the CU1 million, the Ministry recognises a transfer right asset for the right to have the Company's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Company purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Company observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Company makes a business decision and informs the Ministry that it will stop administering the vaccines.

IE45. For the vaccines that have been administered, the Ministry derecognises CU50,000 of the transfer right asset and recognises a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of PBE IPSAS 48 and:

(a) Derecognise the transfer right asset of CU950,000; and

(b) Recognise a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Company has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of PBE IPSAS 41 *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in PBE IPSAS 41 and is no longer within the scope of PBE IPSAS 48.

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognises the amount as a transfer right asset. In this scenario, the Company also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Company informed the Ministry of the

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[12] It should be noted that PBE IPSAS 48 does not prohibit a public benefit entity from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'.

destruction of the 500 doses but noted that it intends to continue with the vaccination programme and administer the remaining 9,000 within 12 months.

IE47. Like Case A, the Ministry derecognises CU50,000 of the transfer right asset and recognises a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed in the earthquake. In addition, the Company has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of PBE IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Company's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with PBE IPSAS 21 and reduces its transfer right asset to CU900,000.

Modifications to a Binding Arrangement

IE49. Example 9 illustrates the requirements in paragraphs 27–29 of PBE IPSAS 48 on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35–37 of PBE IPSAS 48, as well as the requirements on changes in transfer consideration in paragraphs 40–42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50–IE51 but are each independent from each other.

Example 9: Modifications to a Construction Arrangement

IE50. The Ministry of Housing and Urban Development (Housing, the transfer provider) enters into a binding arrangement with Entity A (the transfer recipient) for Entity A 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. In accordance with paragraph 25 of PBE IPSAS 48 and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.

IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Entity A has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognised by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

Case A – Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses

IE52. 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 transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph (a) of PBE IPSAS 48 and concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by Entity A or an increase in Entity A's existing compliance obligations.

IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of PBE IPSAS 48. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, Housing recognises additional expenses of CU9,500 [(53% complete × CU1,150,000 modified transaction consideration) – CU600,000 expenses recognised to date] at the date of the modification as a cumulative catch-up adjustment in the statement of comprehensive revenue and expense.

Case B – Modification Resulting in a New Binding Arrangement

IE54. Continuing with the facts presented in paragraphs IE50–IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.

IE55. Housing determines that this modification results in a separate binding arrangement because:

(a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of PBE IPSAS 48; and

(b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Entity A for the construction of the parking lot.

IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50–IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

Case C – Change in Transfer Consideration Due to the Resolution of Uncertain Events

IE57. Modifying the facts presented in paragraphs IE50–IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.

IE58. Completion of the building is highly susceptible to factors outside Entity A's influence, including weather conditions and regulatory approvals. In addition, Entity A has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.

IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, Housing concludes that payment of the bonus is now probable and adjusts the transfer consideration to CU1,200,000.

IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of PBE IPSAS 48 and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million x 60%) – CU600,000 expense recognised to date).

Measurement

IE61. Example 10 expands upon the fact pattern from Case B of Example 5 to illustrate the allocation of transfer consideration to individual transfer rights.

Example 10: Allocation of Transfer Consideration

IE62. Continuing the fact pattern from Case B of Example 5, the local government office (Local Government) has concluded that it has four distinct transfer rights in its binding arrangement with the IT services agency (the Agency). As noted in paragraph IE34, these transfer rights relate to providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.

IE63. When the Local Government began negotiations with the Agency, it observed that the Agency's published prices would have been as follows, had the software and services been purchased separately for the two-year period: CU6 million for the software, CU4 million for the website-related services, CU3 million for the security updates, and CU2 million for technical support. During negotiations, the Local Government and the Agency used these published prices as a starting point then agreed to reduce the total consideration for all four deliverables from CU15 million to CU12 million.

Case A – Binding Arrangement Specifies Each Transfer Right's Stand-Alone Consideration

IE64. In this scenario, the binding arrangement specifies that the CU3 million reduction in transfer consideration resulted from a CU2 million discount for website-related services and a CU1 million discount for technical support.

IE65. Applying paragraph AG50, the Local Government uses the amount of stand-alone consideration and the negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:

(a) Productivity software: CU6 million;

(b) Website-related services: CU2 million;

(c) Security updates: CU3 million; and

(d) Technical support: CU1 million.

Case B – Binding Arrangement Only Specifies the Total Transfer Consideration

IE66. In this scenario, the Local Government and the Agency only agreed to the overall CU3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the CU3 million is to be allocated.

IE67. Applying paragraph AG51, the Local Government estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency's published prices were used as the starting point for negotiations, the Local Government noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the CU12 million based on each deliverable's published prices.

IE68. Using this approach, the Local Government allocates the transfer consideration as follows:

(a) Productivity software: CU4.8 million (CU6 million ÷ CU15 million × CU12 million);

(b) Website-related services: CU3.2 million (CU4 million ÷ CU15 million × CU12 million);

(c) Security updates: CU2.4 million (CU3 million ÷ CU15 million × CU12 million); and

(d) Technical support: CU1.6 million (CU2 million ÷ CU15 million × CU12 million).

Application of Principles to Specific Transactions

IE69. Example 11 illustrates the application of paragraphs AG53–AG55 of PBE IPSAS 48 to capital transfers.

Example 11: Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:

(a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.

IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.

IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognises a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.

IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognised and expensed throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE74. In this example, the binding arrangement states that:

(a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from PBE IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

IE76. For the transfer right relating to the construction of the building, as in Case A, Entity P recognises a transfer right asset of CU22 million upon the transfer of funds. Entity P then derecognises the CU22 million (and recognises the amounts as transfer expenses) over the construction period, based on the construction progress as determined by information reported by Entity R.

IE77. For the transfer right relating to the operation of the building as a library, Entity P has determined that this transfer right is extinguished as the building is being operated by Entity R as a library during the 10-year period. Therefore, Entity P recognises the entire CU10 million as a transfer right asset upon payment. After construction has been completed, as Entity R operates the building as a public library, Entity P derecognises CU1 million of the transfer right asset per year over the 10-year period and recognises the amount as a transfer expense.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE78. In this scenario, the binding arrangement includes all the terms from Case B, with the addition of the following:

(a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty to Entity P;

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.

IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognise the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.

IE80. The additional CU5 million penalty is not recognised by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognised in accordance with PBE IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

IE81. The following scenario is independent from Cases A–C and illustrates the accounting for a transfer without a capital transfer component.

IE82. In this scenario:

(a) Entity R already owns the building;

(b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidise the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalisation of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity R that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognises the CU10 million as a transfer right asset.

IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognises the transfer right asset evenly over the 10-year period and recognises a transfer expense of CU1 million per year.

Comparison with IPSAS 48

PBE IPSAS 48 *Transfer Expenses* is drawn from IPSAS 48 *Transfer Expenses.*

The significant differences between PBE IPSAS 48 and IPSAS 48 are:

(a) IPSAS 48 excludes from its scope social benefits as defined in IPSAS 42 *Social Benefits*. In contrast, PBE IPSAS 48 does not contain such a scope exclusion.

(b) PBE IPSAS 48 includes consequential amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. These amendments:

  (i) remove the scope exclusion relating to certain obligations of the Crown expressed in legislation that have characteristics similar to an executory contract and

  (ii) add authoritative guidance on the recognition of liabilities arising from local and central government existing public policies, budget policies, election promises or statements of intent, drawing on the principles of PBE IPSAS 19.

(c) PBE IPSAS 48 includes RDR concessions for public benefit entities in Tier 2.

(d) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

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EXTERNAL REPORTING BOARD

Proposed new accounting standard for transfer expenses

Tier 1 and 2 public benefit entities

Consultation document – PBE IPSAS 48 *Transfer Expenses*

Submissions close 1 December 2025

June 2025

Contents

PART ONE: Introduction

A. What is this consultation about?

For many public benefit entities, the making of grants and the delivery of services and social welfare payments to the public account for a significant portion of their expenditure.

This consultation proposes to introduce a new Public Benefit Entity ('PBE') Standard for transfer expenses, based on the International Public Sector Accounting Standards Board (IPSASB) standard IPSAS 48 *Transfer Expenses*, with a proposed mandatory date of 1 January 2029. There is currently no PBE Standard addressing these types of transactions; therefore, the proposed standard aims to fill this gap in PBE Standards to enhance consistency and clarity in the accounting for transfer expenses.

What is a transfer expense?

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, without directly receiving any good, service, or other asset in return.

Examples of expenses that could meet this definition include grants and donations in cash or other assets, as well as social welfare payments.

Background

In May 2023, the IPSASB issued IPSAS 48 *Transfer Expenses*. Prior to this, there had been little guidance in the IPSASB's literature on how to account for these expenditures. IPSAS 48 sets out the accounting requirements for transfer expenses and fills a significant gap in the IPSASB's literature.

IPSAS 48 sets out two accounting models, one for transactions with binding arrangements and another for transactions without binding arrangements. IPSAS 48 also contains comprehensive guidance for an entity to determine whether their transaction arises from a binding arrangement, and consequently, which accounting model to apply.

In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs are primarily based on IPSAS. When proposing to issue a new PBE Standard based on an IPSAS, the New Zealand Accounting Standards Board (NZASB) considers and seeks feedback on the need for New Zealand-specific amendments and/or guidance.

The accompanying Exposure Draft (ED) PBE IPSAS 48 *Transfer Expenses* is a draft of the proposed PBE Standard, which would be applicable to all Tier 1 and Tier 2 PBEs across the public sector and not-for-profit entities.

Maintaining coherence within PBE Standards

Certain key principles in the proposed PBE IPSAS 48 align closely with ED PBE IPSAS 47 *Revenue*, which is the proposed new standard replacing existing PBE Standards on revenue. Together, these proposed standards ensure consistent recognition principles for both revenue and transfer expenses for PBEs. However, while the proposed PBE IPSAS 47 applies to all revenue transactions, the proposed PBE IPSAS 48 only applies to a certain type of expense (i.e., a transfer expense).

Additionally, the proposed standard reflects the updated PBE Conceptual Framework, particularly with respect to equally unperformed binding arrangements.

A note on IPSASB ED 72 *Transfer Expenses*

In 2020, we consulted in New Zealand on the IPSASB's ED on transfer expense, which was released together with the IPSASB's EDs on revenue. ED 72 proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation. Concerns were raised, both internationally and from New Zealand stakeholders, on this key proposal.

When finalising IPSAS 48, the IPSASB ultimately decided to change focus to the transfer provider's perspective and to use binding arrangements as a fundamental concept for transfer expense accounting.

B. How to provide feedback

Responding to consultation questions

We are seeking comments on the questions raised in this Consultation Document. We will consider all comments received before finalising the proposals for PBE IPSAS 48 *Transfer Expenses*.

Please feel free to comment on any or all of the questions or any part of the proposed Standard. We also welcome any feedback on any areas of the proposed Standard not covered by the questions.

Making a submission

You can provide feedback to us via:

- the consultation page on our website (where you can upload your comments); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

Please include 'PBE IPSAS 48 *Transfer Expenses*' in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

For further engagement, we invite you to join our consultation drop-in sessions. Please visit our website for further details.

The closing date for submissions is 1 December 2025.

Invitation for field testing of PBE IPSAS 48

To ensure the proposed PBE IPSAS 48 meets the practical needs of PBEs in New Zealand, we invite preparers to participate in field testing the proposed standard. Field testing will help identify potential challenges, provide insights into implementation, and assess the cost vs benefit impact of adopting the proposed PBE IPSAS 48.

If you are interested in participating or would like further details, please contact us at accounting@xrb.govt.nz

Projected Timeline

June 2025

ED PBE IPSAS 48 *Transfer Expenses* issued for public consultation

1 December 2025

Submissions due to the NZASB

Q3 2026

PBE IPSAS 48 *Transfer Expenses* issued as final standard

1 January 2029

PBE IPSAS 48 *Transfer Expenses* mandatory for periods beginning on or after this date

Publication of submissions, the Official Information Act and the Privacy Act

We intend to publish all submissions on the XRB website unless they may be defamatory. However, all submissions remain subject to the Official Information Act 1982 and may be released in part or in full. The Privacy Act 2020 also applies.

If you wish to request that your submission, or specific parts of it, be withheld from publication or disclosure, please identify the relevant sections and provide the grounds for withholding under the Official Information Act 1982 (e.g., that disclosure would likely unfairly prejudice the commercial position of the person providing the information).

PART TWO: Questions for respondents

C. Questions for respondents

The questions for respondents focus on the costs and benefits of implementing the proposed Standard as well as the specific proposals within ED PBE IPSAS 48 (as discussed in Part 4 of this Consultation Document).

Benefits and cost consideration (Section D)

1(a) What are the anticipated benefits of adopting the proposed PBE IPSAS 48 for your organisation? Please provide specific examples?

1(b) What are the anticipated initial and ongoing costs your organisation may incur in adopting the proposed PBE IPSAS 48? Please provide specific examples.

1(c) Considering the benefits and costs identified above, do you expect the benefits of adopting PBE IPSAS 48 to outweigh the costs for your organisation? Please explain your reasoning.

Key principles in transfer expense accounting (Section E)

2. Do the binding arrangement, enforceability and transfer right principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

Recognition of transfer expense transactions (Section F)

3. Do you agree with the proposed approach to transfer expense recognition for transactions *with* binding arrangements? Are there any specific challenges you foresee in applying this approach?
4. Regarding the proposed approach to transfer expense recognition for transactions *without* binding arrangements:
   (a) Do you agree with the proposed approach? Are there any specific challenges you foresee in applying this approach?
   (b) Do you anticipate a change to the accounting for social benefit transactions as a result of applying the proposed approach? If so, how would the accounting change?
   (c) Do you consider the proposed guidance, added to PBE IPSAS 19, to be sufficient to assist PBEs in determining whether they have a legal or constructive obligation at the reporting date?

Disclosure and RDR concessions (Section G)

5. Do you consider the disclosure requirements to be appropriate and proportionate to the needs of users of PBE financial statements?
6. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

Implementation and specific issues (Section H)

7. What challenges do you anticipate in implementing PBE IPSAS 48, including any specific transactions or scenarios where additional clarification may be needed?
8. What support or guidance would be most helpful to assist with these challenges?

Mandatory date and other comments (Section I)

9. Do you agree with the proposed mandatory date of 1 January 2029?
10. Do you have any other comments on the ED?

PART THREE: Benefits and cost consideration

D. Benefit vs cost consideration

In this Part, we aim to provide an analysis of the anticipated costs and benefits associated with the implementation of the proposed PBE IPSAS 48. Understanding the financial and operational implications is crucial for us to make informed decisions when developing new accounting standards. Your feedback will be invaluable in ensuring that the proposed standard is both practical and beneficial for all parties involved.

Benefits of the proposals

The proposed PBE IPSAS 48 is expected to result in the following benefits:

Fills the current gap in PBE Standards: As noted in section A, there is currently no PBE Standard addressing the accounting for transfer expenses. This has led to diversity in practice across the public sector and not-for-profit sector. The proposed new standard will allow for increased consistency in the reporting of transfer expenses, using the latest international thinking.

Guidance on challenging accounting issues: The proposed PBE IPSAS 48 contains guidance on how to apply the proposals to certain challenging issues currently experienced by PBEs – such as the impact of appropriations on the accounting for expenditure as well as the accounting for multi-year arrangements.

Consistency across the PBE sectors: The proposed PBE IPSAS 48 is applicable to both public sector and not-for-profit entities. Therefore, the proposed standard establishes a consistent framework for transfer expense recognition for all PBEs.

Coherence: As noted in section A, the core principles of the proposed PBE IPSAS 48 are consistent with those of the proposed PBE IPSAS 47. This coherence is further supported by alignment with the updated PBE Conceptual Framework and other PBE Standards.

Costs of the proposals

The adoption of the proposed PBE IPSAS 48 is anticipated to incur the following costs:

Time and resource investment: As with any new accounting standard, there will be costs associated with adoption and familiarisation. Preparers, auditors and other stakeholders will need to invest time and resources into understanding and applying the new principles and guidance in the proposed PBE IPSAS 48. The majority of these costs are expected to be one-off expenses during the implementation phase, with minor ongoing costs for periodic training of new staff and assessing and applying the requirements to new arrangements as they arise.

Judgement and ongoing application costs: Inherently, accounting for transfer expenses may require significant judgement. PBE IPSAS 48 introduces new judgements, particularly during transition, as PBEs reassess existing and new arrangements. Complexity will vary by entity, with NFPs potentially facing greater challenges given potential resource constraints. While many of these costs are anticipated to be concentrated during the initial transition, ongoing expenses will likely persist as PBEs continually assess and apply the proposed standard to new or revised arrangements.

In conclusion: Adopting the proposed PBE IPSAS 48 in New Zealand is expected to enhance the quality and consistency of reporting on transfer expenses within the NFP and public sectors. While the initial adoption may require effort and investment, the long-term benefits are expected to outweigh the costs.

Question 1

a) What are the anticipated benefits of adopting the proposed PBE IPSAS 48 for your organisation? Please provide specific examples.

b) What are the anticipated initial and ongoing costs your organisation may incur in adopting the proposed PBE IPSAS 48? Please provide specific examples.

c) Considering the benefits and costs identified above, do you expect the benefits of adopting PBE IPSAS 48 to outweigh the costs for your organisation? Please explain your reasoning.

PART FOUR: Overview of Proposals

E. Overview of proposals

Summary

In Part 4, we highlight the key aspects of the proposals and those areas where we are particularly interested in your feedback. Part 4 is organised as follows.

F. Key principles in transfer expense accounting

G. Recognition of transfer expense transactions

H. Disclosure and RDR concessions

I. Implementation and specific issues

J. Mandatory date and other comments.

Approach to developing PBE IPSAS 48

The proposed PBE IPSAS 48 is closely based on IPSAS 48. In accordance with its usual approach to developing a PBE Standard based on an IPSAS, the New Zealand Accounting Standards Board has:

- aligned terminology with that used in PBE Standards (for example, PBE Standards include the concept of other comprehensive revenue and expense);
- considered the need for any modifications to the IPSAS, to make the proposed standard more appropriate for PBEs in New Zealand, such as with respect to scope; and
- ensured coherence within PBE Standards by considering the existence of New Zealand-specific standards or requirements;
- identified reduced disclosure requirements (RDR) for Tier 2 PBEs, with respect to disclosure requirements in the proposed standard.

A significant modification to IPSAS 48 is the inclusion of social benefit transactions within the scope of the proposed PBE IPSAS 48. Refer to Basis for Conclusions paragraphs BC12–BC14 in the ED for information on the reasons for this modification. Sections F and G of this document highlight the applicability of the proposals to these types of transactions.

Terminology used in the proposed standard

In addition to the term ‘transfer expense’, the proposed PBE IPSAS 48 introduces several new terms into PBE Standards, which are discussed further throughout this document. Some of these new terms, noted in the table below, are similar, but not identical, to those used in the proposed PBE IPSAS 47 *Revenue*.

Transfer provider ***(the reporting entity)***	**An entity that provides a good, service or other asset to another entity without directly receiving any good, service or other asset in return.** The proposed PBE IPSAS 47 uses the term *resource provider* because the scope of the proposed new standard for revenue is broader and encompasses revenue from transfers as well as other transactions.
Transfer recipient	**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.** The proposed PBE IPSAS 47 uses the term *resource recipient*, for reasons similar to those noted above.

F. Key principles in transfer expense accounting

The binding arrangement concept

Under the proposed PBE IPSAS 48, the accounting for a transfer expense transaction is driven by whether the transfer provider has an **enforceable right** to have the transfer recipient satisfy its obligations. Such an enforceable right is recognised as an **asset** and subsequently expensed as the enforceable right is extinguished. Effectively this results in a delay in expense recognition.

For a transfer right to exist, there must be a **binding arrangement**. This is because the rights and obligations in a binding arrangement, and its enforceability, provide the necessary basis for asset recognition.

Determining whether a binding arrangement exists is therefore a key judgement for PBEs to make, as it affects how the transaction is recognised, measured, presented and disclosed in the financial statements. As such, it is the first step in accounting for the transaction.

The ED describes this right as a 'transfer right'. The asset recognised for the existence of one or more transfer rights is described as a 'transfer right asset'.

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

Enforceability in a binding arrangement

The definition of a binding arrangement is underpinned by the principle of enforceability.

In the public sector, an arrangement is enforceable when at least two of the parties are able to enforce their respective rights and obligations through various mechanisms. An arrangement is enforceable if it includes:

- clearly specified rights and obligations for at least two of the parties to the arrangement; and
- remedies for non-completion by each of these parties which can be enforced through the identified enforcement mechanisms.

Refer to paragraphs 10–17 and Application Guidance paragraphs AG11–AG29 in the ED for further information on the binding arrangement and enforceability concepts, as well as the mechanisms of enforceability that PBEs should consider.

Transfer rights

Transfer rights provide the basis for the timing of recognition of transfer expenses arising from binding arrangements. Therefore, the reporting entity (transfer provider) must identify the number of distinct transfer rights in the binding arrangement in order to ensure appropriate transfer expense recognition when (or as) the transfer recipient satisfies its obligations.

Refer to paragraph 21 and Application Guidance paragraphs AG31–AG34 in the ED for further information on identifying transfer rights.

Question

2. Do the binding arrangement, enforceability and transfer right principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

G. Recognition of transfer expense transactions

Two models for transfer expense accounting

Once a PBE has determined whether or not there is a binding arrangement, the PBE applies one of two models set out in the proposed PBE IPSAS 48:

Is there a binding arrangement?

Yes

Recognise expense:

- When (or as) a transfer right asset is derecognised OR
- When a transfer obligation liability is recognised.

No

Recognise expense:

- Upon recognition of a provision OR
- If no provision, when control of the resources is lost.

Model 1: Transactions *with* binding arrangements

A transfer expense is recognised in one of two ways, depending on which party performs first under the binding arrangement.

***Transfer right asset* recognised**	Reporting entity performs first	Transfer recipient performs first	***Transfer obligation liability* recognised**

The reporting entity (transfer provider) has satisfied its obligation under the binding arrangement and recognises a transfer right asset because the transfer recipient still owes performance to the reporting entity. The transfer expense is recognised as (or when) the transfer right asset is derecognised (typically as or when the transfer recipient satisfies its obligations).	The transfer recipient has satisfied its obligation under the binding arrangement. A transfer obligation liability is recognised because the reporting entity owes the resources to the recipient. The transfer expense is recognised at the same time as the liability.

The binding arrangement may specify that the transfer provider's transfer rights are reduced (and the transfer right asset derecognised) as the transfer recipient satisfies its obligations. If the transfer provider cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, *then the transfer right asset is derecognised immediately* and the corresponding transfer expense is recognised in full.

Note: a transfer right asset may also be derecognised:

- if the transfer right asset is impaired (when the transfer recipient is unable/unwilling to satisfy its obligations); or
- when, in the event of the transfer recipient's non-performance, the transfer provider has the enforceable right to receive cash compensation (in this case, a financial asset is recognised).

Refer to paragraphs 22 – 29 and Application Guidance paragraphs AG35–AG49 in the ED for further information on the recognition of transfer expenses arising from binding arrangements.

Question

3. Do you agree with the proposed approach to transfer expense recognition for transactions **with** binding arrangements? Are there any specific challenges you foresee in applying this approach?

G. Recognition of transfer expense transactions (cont.)

Model 2: Transactions *without* binding arrangements

Without a binding arrangement, there can be no transfer right. But a transfer provider may still have a legal or constructive obligation to transfer resources to one or more recipients. Therefore, the first step in the accounting for a transfer expense transaction without a binding arrangement is to determine whether a provision exists, as defined in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and whether it should be recognised. A transfer expense is recognised at the same time as the provision.

If there is no provision, then the transfer expense is recognised when the transfer provider no longer controls the resources.

Refer to paragraph 18 and Application Guidance paragraph AG30 in the ED for further information on the recognition of transfer expense transactions without a binding arrangement.

Application of the proposed recognition requirements to social benefit transactions

Local and central governments provide social welfare payments to beneficiaries as well as services such as education and health to individuals and communities. These transactions are accounted for as transactions without a binding arrangement when they meet the definition of a transfer expense.

There is currently no PBE Standard that specifically applies to social benefit transactions. Therefore, central and local governments have developed their own accounting policies when accounting for these transactions, based on the requirements within PBE IPSAS 19. Since the proposed Standard requires a transfer provider to consider first whether there is a provision under PBE IPSAS 19, we do not expect these proposals to result in a significant change in how these transactions are accounted for.

As a result of these proposals, we have also proposed consequential amendments to PBE IPSAS 19. These proposed amendments:

- remove the current scope exclusion relating to certain obligations of the Crown.
- add guidance to assist PBEs in determining whether, at the reporting date, they have a legal or constructive obligation to provide social welfare payments and services to individuals and communities.

Paragraphs 4.1–4.2 and Application Guidance paragraph AG3.1 in the ED contain guidance on the application of the proposed standard to social benefit transactions. Appendix B in the ED contains the proposed amendments to PBE IPSAS 19.

Questions

4. Regarding the proposed approach to transfer expense recognition for transactions **without** binding arrangements:

   a) Do you agree with the proposed approach? Are there any specific challenges you foresee in applying this approach?

   b) Do you anticipate a change to the accounting for social benefit transactions as a result of applying the proposed approach? If so, how would the accounting change?

   c) Do you consider the proposed guidance, added to PBE IPSAS 19, to be sufficient to assist PBEs in determining whether they have a legal or constructive obligation at the reporting date?

H. Disclosure and RDR concessions

Disclosure

The proposed PBE IPSAS 48 requires a PBE to disclose sufficient information to enable the users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from transfer expense transactions. Therefore, the PBE must disclose information about:

- transfer expenses and related balances;
- transfer arrangements; and
- the significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions.

Refer to paragraphs 50–61 in the ED for the proposed disclosure requirements.

Application of the proposed disclosure requirements to social benefit transactions

The proposed PBE IPSAS 48 does not include disclosure requirements specific to social benefit transactions. Instead, the disclosure requirements applicable to transactions without binding arrangements apply to these transactions. This will likely mean that more disclosure will be required in the financial statements relating to these types of transactions, particularly with respect to qualitative information about social benefit schemes. The proposed standard emphasises the need to apply materiality when deciding on the nature and extent of the disclosures to provide in the financial statements.

Questions

5. Do you consider the disclosure requirements to be appropriate and proportionate to the needs of users of PBE financial statements?

RDR concessions

The proposed PBE IPSAS 48 includes disclosure concessions for Tier 2 PBEs. Tier 2 entities will *not* be required to provide the following disclosures:

- **Disclosure of significant payment terms** – refer to paragraphs 59(b) and 60(b) in the ED.
- **Significant risks and uncertainties relating to the realisation of transfer right assets** – refer to paragraph 59(d) in the ED.

The proposed standard also replaces certain existing paragraphs with RDR concessions, for the purposes of clarifying that Tier 2 PBEs are only required to comply with those disclosure requirements in other PBE Standards that are applicable to them. Refer to paragraphs 55–58 and RDR 55.1–RDR 58.1 in the ED.

Question

6. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

I. Implementation and specific issues

The proposed PBE IPSAS 48 introduces a comprehensive and robust framework for recognising and measuring transfer expenses. The proposed standard also aims to address common challenges faced in practice by providing guidance. Some of the key areas where the proposed standard provides specific guidance include:

- **Multi-year funding arrangements**: Clarifying recognition of transfer expenses where funding spans multiple reporting periods (Implementation Guidance Section G.1).
- **Appropriations**: Providing insights on recognising revenue from appropriations (Implementation Guidance Section B.3).
- **Capital transfers**: Addressing the application of the principles in the proposed standard to transactions involving the transfer of resources intended for capital projects (Application Guidance paragraphs AG53–AG55 and Implementation Guidance Section A).

This guidance aims to reduce ambiguity and improve consistency across PBEs in how transfer expenses are reported. However, implementation of a new standard often raises questions or challenges, particularly during the transition period.

To ensure a smooth adoption of the proposed PBE IPSAS 48, we are seeking stakeholder feedback on any areas where further clarification or support might be needed.

Questions

7. What challenges do you anticipate in implementing PBE IPSAS 48, including any specific transactions or scenarios where additional clarification may be needed?
8. What support or guidance would be most helpful to assist with these challenges?

J. Mandatory date and other comments

The ED proposes that PBE IPSAS 48 be applied to annual financial statements covering periods beginning on or after 1 January 2029. Application would be permitted for accounting periods that begin before 1 January 2029 but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

We believe that a mandatory date of 1 January 2029 would allow PBEs sufficient time to prepare for the application of the Standard.

With early application permitted, those PBEs who wish to adopt PBE IPSAS 48 early will be able to do so.

Questions

9. Do you agree with the proposed mandatory date of 1 January 2029?
10. Do you have any other comments on the ED?

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