

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 18–21, 2018

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Agenda Item 9

For:

- ☐ Approval
☒ Discussion
☒ Information

REVENUE

Project summary	<p>Revenue</p> <p>The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS.</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9, <i>Revenue from Exchange Transactions</i>, IPSAS 11, <i>Construction Contracts</i> and IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>.</p>	
Meeting objectives	Topic	Agenda Item
Project management	Decisions up to June 2018 Meeting	9.1.1
	Instructions up to June 2018 Meeting	9.1.2
	Revenue Project Roadmap	9.1.3
Discussion items	Revenue Modifications to IFRS 15, <i>Revenue from Contracts with Customers</i> for application in the Public Sector	9.2.1
	Revenue - Approach to IFRS 15: <i>Amendments to Other IPSAS</i>	9.2.2
	Services in-Kind	9.2.3
	Other Compulsory Contributions and Levies	9.2.4
	[draft] Exposure Draft (ED) XX, <i>Revenue from Contracts and Other Binding Arrangements with Customers Transactions with Performance Obligations</i>	Appendix C to 9.2.1
Other supporting items	Draft Amendments to Other IPSAS (IFRS 15 Convergence Project)	9.3

DECISIONS UP TO JUNE 2018 MEETING

Date of Decision	Decision
June 2018	The Board decided that the requirements for accounting for revenue from social contributions should adopt the same principles as for taxation revenue.
June 2018	The Board decided that, in dealing with Category C revenue transactions, there are no major public sector issues that warrant departure, after considering the alignment with IFRS 15, <i>Revenue from Contracts with Customers</i> .
June 2018	The Board decided to retain the term “Fair Value” until the project on Public Sector Measurement is concluded.
June 2018	The Board decided to approve the terminology changes, and, with some clarifications, the definitions.
June 2018	The Board decided to proceed with the PSPOA for appropriate transactions that were classified as Category B in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> .
June 2018	The Board decided not to change the existing recognition requirements for recognizing services in-kind in IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>
March 2018	The Board decided that IPSAS 23 should be updated.
March 2018	The Board decided to progress with a convergence project on IFRS 15, <i>Revenue from Contracts with Customers</i>
June 2017	All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .

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9.1.2

INSTRUCTIONS UP TO JUNE 2018 MEETING

Meeting	Instruction	Actioned
June 2018	The Board instructed staff to check the consistency of the use of the terms “Binding Arrangement or Other Binding Arrangements”	Agenda Items 9.2.1 and Appendix A and Appendix B .
June 2018	The Board instructed staff to check whether the difference in the definitions to the term “Binding Arrangements,” as per IPSAS 32, <i>Service Concession Arrangement</i> and IPSAS 35, <i>Joint Arrangements</i> , is due to timing rather than due to substance, since IPSAS 32 was issued before publication of the Conceptual Framework, while IPSAS 35 was published after the Conceptual Framework.	Agenda Item 9.2.1.
June 2018	The Board instructed staff to consider adding the terms, “Binding Arrangement Asset” and “Binding Arrangement Liability” to “Contract Asset” and “Contract Liability,” respectively since governments may enter into contracts and/or binding arrangements.	Agenda Items 9.2.1 and Appendix A and Appendix B .
June 2018	The Board instructed staff to consider whether the definition of “Contract Asset” suits the context of the public sector since the definition of Contract Asset is the entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer.	Agenda Items 9.2.1 and Appendix A and Appendix B .
June 2018	The Board instructed staff to reconsider changing the term, “Customer” to suit the context of the public sector.	Agenda Items 9.2.1 and Appendix A .
June 2018	The Board instructed staff to consider swapping the order of “goods and services” to “services and goods.”	Agenda Items 9.2.1 and Appendix A .
June 2018	The Board instructed staff to move the positioning of the definitions from the Appendices to the body of the standard.	
June 2018	The Board instructed staff to explore whether a reduction in future funding and government powers would be appropriate enforcement mechanisms	Agenda Item 9.2.1
June 2018	The Board instructed staff to develop guidance to articulate the principle that the customer is the entity that directs and enforces delivery of goods and services.	Agenda Item 9.2.1
June 2018	The Board instructed staff to consider replacing the term ‘commercial substance’ with ‘economic substance’.	Agenda Item 9.2.1
June 2018	The Board instructed staff to develop guidance to articulate what ‘distinct’ would mean when identifying goods and services to be transferred in a performance obligation.	Agenda Item 9.2.1
June 2018	The Board instructed staff to provide options on how wording and placement of encouragements to recognize or disclose services in-kind would appear in an updated IPSAS 23.	Agenda Item 9.2.3

Meeting	Instruction	Actioned
June 2018	The Board instructed staff to simplify the draft guidance provided by referring to tax and other compulsory levies.	Agenda Item 9.2.4
March 2018	The Board directed staff to reexamine respondent comments to the CP regarding services in-kind and to shape the arguments for each option.	
March 2018	The Board directed to conduct desk research on service in-kind to determine the requirements of other standard setters and also to investigate how not-for-profit entities (not restricted to the public sector) account for services in-kind.	
March 2018	The Board directed staff to further develop the Public Sector Performance Obligation Approach model complete with examples to test the model.	
December 2017	As part of the review of the Work Plan, the IPSASB instructed staff to consider revenue as three separate streams, <i>IFRS 15 Convergence, Updated IPSAS 23 and Grants and other Transfers</i>	
December 2017	The IPSASB requested staff consider how the Specific Matters for Comment and Preliminary Views relate to the different revenue and non-exchange expenses project streams.	
June 2017	All instructions provided up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses	

Agenda Item

9.1.3

REVENUE PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:		
	Revenue from Contracts with Customers (IFRS 15 Convergence)	Limited Update of IPSAS 23	Grants and other Transfers
September 2018	1. Discuss Issues 2. Develop ED	1. Discuss Issues 2. Exposure Draft	1. Discuss Issues
December 2018	1. Discuss Issues 2. Develop ED	1. Discuss Issues 2. Exposure Draft	1. Discuss Issues
March 2019	1. Approve ED	1. Approve ED	1. Discuss Issues 2. Exposure Draft
June 2019			1. Approve ED
September 2019			
December 2019	1. Review Responses	1. Review Responses	
H1 2020	1. Discuss issues 2. Approve IPSAS	1. Discuss issues 2. Approve IPSAS	1. Review Responses
H2 2020			1. Discuss Issues 2. Develop IPSAS
H1 2021			1. Approve IPSAS

Revenue - Modifications to IFRS 15, *Revenue from Contracts with Customers* for application in the Public Sector**Questions – IFRS 15 convergence project**

1. The IPSASB is asked to consider a [draft] Exposure Draft (ED) dealing with Category C revenue transactions and provide guidance to staff on how to further develop these sections to suit the context of the public sector.

Questions – Public Sector Performance Obligation Approach (PSPOA)

2. The Board is asked to consider the staff drafting and placement of drafting to be included in a [draft] ED on revenue for:
 - (a) Binding Arrangement;
 - (b) Customer;
 - (c) Economic Substance;
 - (d) Enforceability; and
 - (e) Distinct goods and services.

Detail*Background – IFRS 15 convergence project*

3. At its June 2018 meeting, the IPSASB decided that, in dealing with Category C revenue transactions, there are no major public sector issues that warrant departure, after considering the alignment with IFRS 15, *Revenue from Exchange Transactions*. The IPSASB decided to retain the term “Fair Value” until the project on *Public Sector Measurement* is concluded. The IPSASB decided to approve the terminology changes, and with some clarifications, the definitions. The IPSASB requested staff to move the positioning of the definitions in IFRS 15 from the Appendices to the Body of the draft Exposure Draft.
4. At its June 2018 meeting, the IPSASB instructed staff to:
 - (a) Check the consistency of the use of the term, “Binding Arrangement”;
 - (b) Consider the suitability of the terms, “Contract Asset”, “Contract Liability”, “Consideration”, “Exchange”, “Customer” and “Goods and Services”; and
 - (c) Consider the appropriateness of the methods of determining the stand-alone selling price.
5. Staff did not include the accounting requirements for sale and leaseback transactions to the [draft] Exposure Draft (ED) dealing with Category C revenue transactions because the interaction with the Leasing project still needs further consideration.

Binding Arrangement – IFRS 15 convergence

6. There is inconsistent use of the term, “binding arrangements”, within the IPSAS literature. The various terms used in the IPSAS literature are, “binding agreements”, “binding arrangements”, “binding sale agreements”, “binding transfer arrangements”, “legally binding arrangements”, “legally binding commitments”, “other binding arrangements”, “related binding arrangements”, and “similar binding arrangements”.
7. Staff recommends the use of the terms, “binding arrangements”, or “other binding arrangements”, because the terms are located in the Conceptual Framework and numerous standards. The current revenue standards, IPSAS 11, *Construction Contracts* and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, and the latter standards such as IPSAS 40, *Public Sector Combinations* also use the terms, “binding arrangements”, or “other binding arrangements”. Refer to [Appendix A](#), for the detailed breakdown of the location of the various terms in the Standards.
8. Staff has reviewed the different definitions of “binding arrangement”, and considers that they are consistent. The definition adopted in the [draft] ED is based on IPSAS 35, *Consolidated Financial Statements* as this post-dates the Conceptual Framework.

Binding Arrangement – PSPOA

Background

9. Staff were directed at the June 2018 meeting to review the concept of a binding arrangement to determine whether it would include various arrangements cited by Board members.

Detail

10. It is not possible to analyze every arrangement, further judgement would be required to ascertain whether an arrangement meets the concept of a binding arrangement. Therefore, staff developed guidance to be included in the [draft] ED indicating that a binding arrangement:
 - (a) Confers enforceable rights and obligations on the parties;
 - (b) Acts as if it were a contract; and
 - (c) Can be in forms other than written.

This guidance was drafted from and is consistent with existing text in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Framework)*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, and IPSAS 38, *Disclosure of Interests in Other Entities*.

11. This guidance has been placed following [paragraph 10](#) of the [draft] ED.

Contract Asset and Contract Liability – IFRS 15 convergence

12. IFRS 15 defines a contract asset as an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance). A contract liability is defined as an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. Staff considered the suitability of the terms, “contract asset” and “contract liability”, for the public sector, because, the definition of,

“binding arrangement”, is much broader than the definition of a contract, as it encompasses rights and obligations that arise from legislative or executive authority. Staff considered the following options:

- (a) Continue to use the terms, “contract asset” and “contract liability”;
 - (b) Continue to use the terms, “contract asset” and “contract liability”, and highlight that a contract asset and contract liability may also arise from binding arrangements;
 - (c) Replace the terms, “contract asset” and “contract liability”, with “binding arrangement asset” and “binding arrangement liability”, respectively; or
 - (d) Use the terms, “contract asset” and “contract liability”, concurrently (along-side) with the terms, “binding arrangement asset” and “binding arrangement liability”, respectively.
13. Staff deliberated the benefits and disadvantages of each option which are highlighted in [Appendix B](#). Staff recommends the concurrent use of the terms, “contract asset” and “contract liability”, along-side “binding arrangement asset” and “binding arrangement liability”, to allow for convergence with IFRS 15 and to also cater for the public sector environment. If the IPSASB does not support this recommendation, staff consider the option to retain the terms, “contract asset” and “contract liability”, and highlight that a contract asset and contract liability may also arise from binding arrangements would be the best alternative.

Consideration – IFRS 15 convergence

14. The definition of a contract asset refers to, “consideration in exchange for goods or services”. The IPSASB had concerns that the reference to the terms “consideration”, might not be suitable for the public sector environment. The term, “consideration”, is not defined in the IPSAS literature.
15. Staff deliberated to replace the term, “consideration”, with terms such as, “economic resources”. However, staff chose to retain the term, “consideration” because:
- (a) The term, “consideration”, is embedded in various locations within the IPSAS literature. Refer to [Appendix A](#), for the detailed breakdown of the location of the various terms in the Standards; and
 - (b) The Merriam Webster dictionary defines “consideration”, as, “recompense or payment by one party in return for the act or promise of another¹”; this definition perfectly captures the meaning intended.

Exchange – IFRS 15 convergence

16. The definition of a contract asset refers to “consideration in exchange for goods or services”. The IPSASB had concerns that the reference to “exchange”, might be confusing where revenue is classified depending on whether there is a performance obligation or not.
17. In many instances, the term “exchange” is used in IPSAS to describe an ‘action’ rather than the type of transaction. The term is widespread in the IPSAS literature; the term has also been used in a title of a standard, IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. Retaining the term “exchange” would also maintain convergence with IFRS 15. Staff therefore recommends retaining

¹ See definition 6 at [Definition of, “Consideration”, by Merriam-Webster](#).

the term “exchange” Refer to [Appendix A](#), for the detailed breakdown of the location of the various terms in the Standards.

Customer – IFRS 15 convergence project

18. Staff acknowledge that, the term, “customer”, may not always suit the public sector. Staff considered the appropriateness of other terms, such as, “Buyer, Commissioner, Contractor, Payer, Resource Provider, Resource Recipient and Purchaser. Staff recommend the terms, “customer” or “purchaser”, because:
 - (a) The terms are widespread in the IPSAS literature and allow for convergence with IFRS 15;
 - (b) The term, “Buyer,” used in IAS 18, *Revenue* was replaced by the IASB when the Board replaced IAS 18 and issued IFRS 15;
 - (c) The dictionary definition of the term, “Commissioner” refers to a person appointed to a specific role – it is not generally used to mean the person or organization that commissions work²;
 - (d) The term, “Contractor,” used in IAS 11, *Construction Contracts* was replaced when the IASB issued IFRS 15; and
 - (e) The terms, “Payer, Resource Provider and Resource Recipient,” are more appropriate for non-exchange transactions.
19. The Australian Accounting Standards Board (AASB), Standard AASB 15, *Revenue from Contracts with Customers* retains the term, “customer”, to maintain a transaction-neutral approach to IFRS 15. The concern with the term, “purchaser”, is that it is broad and might make it difficult for an entity to distinguish contracts that should be accounted for under IFRS 15 from contracts that should be accounted for under other requirements. As a result, staff recommends the term, “customer”.

Customer – PSPOA

Background

20. At the June 2018 meeting staff recommended that guidance on who the ‘customer’ was in public sector transactions should be included PSPOA based standard. The Board directed staff to develop such guidance and that it should articulate the principle that the customer is the entity that directs and enforces delivery of goods and services.

Detail

21. Staff together with two Board members and one Technical Advisor developed guidance on the ‘customer’ within the public sector. Staff have reviewed the [draft] Exposure Draft and decided to place this guidance following the Definitions at [paragraph 9](#) of the [draft] ED.

Goods and services – IFRS 15 convergence

22. Staff considered either, replacing the term, “goods and services” with the term, “services”, or swapping the ordering of the term, to “services and goods,” because the term, “services”, is more

² [Definition of, “Commissioner”, by Merriam-Webster.](#)

appropriate for the public sector. The Conceptual Framework refers to the term, “services,” and summaries that, services incorporate goods.

23. Under IFRS 15, there are usually different recognition points for goods and services. An entity mainly transfers control of “goods”, at a point in time and control of “services”, over time. Staff therefore does not recommend using the single term “services”, as this could cause confusion regarding the recognition point. Staff therefore recommends the IPSASB to retain the term, “goods and services”. In addition, public sector entities also produce goods for sale (drinking water) and purchase goods for resale (sale of bins, books, maps and passports).
24. To add on, staff do not recommend swapping of the ordering of the term, “services and goods”, because, the term, “goods and services”, is widespread in the IPSAS literature. Previous literature on revenue, IPSAS 9 and IPSAS 11, also use the term, “goods and services”. Refer to [Appendix A](#), for the detailed breakdown of the location of the various terms in the Standards.

Considering the appropriateness of the methods of determining the stand-alone selling price – IFRS 15 convergence

25. IFRS 15 defines the stand-alone selling price of a good or service, as the price at which an entity would sell a promised good or service separately to a customer. An entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services.
26. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:
 - (a) **Adjusted market assessment approach** - an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;
 - (b) **Expected cost plus a margin approach** - an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or
 - (c) **Residual approach** - an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.
27. Staff considers that the methods of determining the stand alone selling price are appropriate for the Category C arrangements that would be covered in a converged IFRS 15 Standard.
28. All decisions and instructions at the June 2018 meeting were reflected in the [draft] [Exposure Draft XX, Revenue from Contracts and Other Binding Arrangements with Customers Transactions with Performance Obligations](#) and [Draft Amendments to Other IPSAS](#).

Economic Substance – PSPOA

Background

29. At the June 2018 meeting the Board decided to change references to ‘commercial substance’ with ‘economic substance’.

Detail

30. Staff have replaced all references to ‘commercial substance’ with ‘economic substance’ and added a footnote to describe economic substance, including the fact that it includes commercial substance.
31. Staff have also added a paragraph (following [paragraph 10](#) of the [draft] ED) which provides guidance on how to determine if a transaction has economic substance. This text is based on relevant paragraphs in IPSAS 16, *Investment Property* (paragraph 37) and IPSAS 17, *Property, Plant and Equipment* (paragraph 39)

Enforceability - PSPOA

Background

32. At the June 2018 meeting the Board instructed staff to develop guidance on enforceability, in particular for revenue transactions that would be accounted for under the PSPOA. Specially, staff were asked to explore whether a reduction in future funding or whether use of government powers could be appropriate enforcement mechanisms.

Detail

33. Paragraph 11 of the [draft] ED indicates that contracts or other binding arrangements must create enforceable rights and obligations. Enforceability of these arrangements can be through legal or equivalent means³. Transactions that arise from contracts will generally be enforceable through legal means whereas binding arrangements may be enforceable via legal or equivalent means.
34. Staff consider that transactions that arise from a contract do not require any extra guidance for the PSPOA as the enforceability of contracts is already addressed in the IFRS 15 text. Therefore, any additional guidance provided on enforceability should focus on transactions that arise from other binding arrangements.
35. As noted above in paragraph 7 a definition of binding arrangement has been added to the IFRS 15 text for the [draft] ED. A key feature of this definition is that a binding arrangement confers rights and obligations on the parties as if it were a contract.
36. Regarding transactions that arise from other binding arrangements, staff are of the view that the enforcement mechanisms for these transactions can be placed into one of three categories:
- (a) Legal Enforceability;
 - (b) Enforceability by equivalent means; or

³ Paragraph BC32 of IFRS 15 suggests that enforceability may be achieved by means other than legal by stating “Determining whether a contractual right or obligation is enforceable is a question to be considered within the context of the relevant legal framework (or equivalent framework) that exists to ensure that the parties’ rights and obligations are upheld”.

(c) Enforceability by Additional mechanisms.

Staff consider that 'Additional mechanisms' may be expanding the boundaries of enforceability too far but are including them for completeness.

37. Following are enforcement mechanisms staff have identified that could be considered for inclusion in guidance on enforceability:

- (a) Legislation or Executive Authority;
- (b) Cabinet and Ministerial directives;
- (c) Sovereign Rights
- (d) Ability to reduce future funding;
- (e) Economic Coercion or Political Necessity.

Each of these possible enforcement mechanisms is discussed below.

Legislation or Executive Authority

38. Legislation or Executive Authority would be considered legal enforceability because they both create laws which enter into the legal system of the relevant jurisdiction. Precedence can be found in IPSAS 35-38, which all state: "Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties". Therefore staff considers them to be valid enforcement mechanisms to include in the [draft] ED.

Cabinet and Ministerial Directives

39. Staff are of the view that Cabinet and Ministerial directives are enforcement mechanisms by equivalent means as they can create binding arrangements with enforceability between different government departments or different levels of the same government structure, but is outside of the legal system. The use of cabinet and ministerial directives as an enforcement mechanisms is cited in paragraph 7 of IPSAS 11, *Constructions Contracts* which, when referring to binding arrangements, states "... However, provided that the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract, it is a construction contract for the purposes of this Standard. Such binding arrangements could include (but are not limited to) a ministerial direction, a cabinet decision, a legislative direction (such as an Act of Parliament), or a memorandum of understanding. Therefore, staff consider Cabinet and Ministerial directions to be valid enforcement mechanisms to include in the [draft] ED.

Sovereign Rights

40. Regarding Sovereign rights staff consider that this ultimate power of a government could be a valid enforcement mechanism but only in certain circumstances in that the use of such a power would have to be cited in the arrangement to which both parties agree. Therefore, the entity would be aware that if they failed to fulfil the promises in the agreement the customer could invoke its sovereign rights to ensure that the entity complies. Consequently, whilst sovereign rights in isolation would not be considered a valid enforcement mechanism, if included in the agreement as means of enforceability then it may be considered an appropriate mechanism under the 'equivalent means' category.

Reduction of Future Funding

41. A customer's ability to reduce future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism because there is no funding to reduce as there is no current agreement with the entity to provide such funding in the future. However, if the customer does have a present obligation to fund the entity in the future this may be a valid enforcement mechanism if it is included in the agreement as an enforcement mechanism for non-performance. Staff consider this to be a 'legal mechanism' category because there could be a valid agreement for future funding which could be enforced through the legal means. However, because the Board asked for this possible enforcement mechanism to be assessed, staff welcomes Board discussion on this assessment.

Economic Coercion or Political Necessity

42. Expanding on reduction of future funding as an enforcement mechanism, staff have considered the scenario whereby; if an entity relies solely on funding from one source, does the threat that this funding could be reduced or ceased entirely establish a valid enforcement mechanism? Staff consider this could constitute economic coercion or political necessity. Paragraph 5.26 of the *Framework*, states "Economic coercion, political necessity or other circumstances may give rise to situations where although the public sector entity is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation".
43. Irrespective of this *Framework* paragraph staff are of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of this project because the a non-legally binding obligation as cited in the *Framework* is binding on the promisor only whereas as for a binding arrangement both parties have to agree to the rights and obligations within that agreement.
44. As such, staff does not consider economic coercion or political necessity to be a valid enforcement mechanism but have included it in this discussion for the Board to consider. If this were to be included as an enforcement mechanism staff consider it would be classified as an additional mechanism.
45. Guidance based on the above discussion has been included in the [draft] ED following [paragraph 11](#) of the [draft] ED. Guidance on enforcement mechanisms that staff consider in question are encased in square brackets and is highlighted.

'Distinct' goods and services in a performance obligation – PSPOA

Background

46. IFRS 15 requires that the goods or services (or bundle of goods or services) within a promise must be distinct to be classified as a performance obligation. The objective of identifying each distinct good or service in an arrangement is to determine whether an entity's promise to transfer goods or services is separately identifiable from other promises in the arrangement and should therefore be accounted for separately.
47. Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* indicated that in the public sector identifying distinct goods or services can be challenging because:

- (a) The specificity of services may be implied rather than explicit; and
 - (b) The specificity of services expected to be delivered may be reflected across a number of documents and mechanisms.
48. At the June 2018 meeting, the Board noted that the Australian Accounting Standards Board had included a criteria into its guidance for not-for-profit entities regarding identifying whether a performance obligation exists. Paragraph F20 of AASB 15, *Revenue from Contracts with Customers* states:
- ... A necessary condition for identifying a performance obligation of a not-for-profit entity is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit, regarding the promised goods or services, including conditions regarding the following aspects:
- (a) the nature or type of the goods or services;
 - (b) the cost or value of the goods or services;
 - (c) the quantity of the goods or services; and
 - (d) the period over which the goods or services must be transferred.
49. The Board discussed whether an extra criteria should be included for the PSPOA, there were mixed views but overall indicated to staff that they did not consider it necessary but that perhaps guidance on how to identify distinct goods and services could be drafted.

Detail

50. When developing this paper, staff again reviewed the AASB guidance and noted that the addition of 'sufficiently specific' is in reference to the promise made in an agreement to deliver distinct goods and services' not to the actual goods and services (which must be distinct) so this is a slight variance on what was originally presented at the June 2018 meeting.
51. Nevertheless, staff do not consider it necessary to add this extra 'sufficiently specific' criteria, or something similar as IFRS 15 has quite detailed regarding 'promises in a contract' and 'distinct goods and services' including text on 'implied promises' in an arrangement:
- A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in the contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer.
52. Although staff do not consider it necessary to add 'specifically specific' or something similar for the PSPOA, staff have added minimal guidance on determining if a good or service is distinct. This guidance has been added following [paragraph 28](#) of the [draft] ED. Staff further suggests that the concept of distinct goods and services can be illustrated in public sector specific examples.

Decisions required – IFRS 15 convergence project

53. Does the IPSASB agree with the staff recommendations regarding:

- (a) The consistency and suitability of the terms:
 - (i) Binding Arrangements or Other Binding Arrangements?
 - (ii) Contract Asset and Contract Liability concurrently with Binding Arrangement Asset and Binding Arrangement Liability?
 - (iii) Consideration?
 - (iv) Exchange?
 - (v) Customer?
 - (vi) Goods and Services?
- (b) The appropriateness of the methods of determining the stand-alone selling price?

Decisions required – PSPOA

54. The IPSASB is asked whether it agrees with the:

- (a) Wording for guidance on 'binding arrangement';
- (b) Placement of the guidance on 'binding arrangement';
- (c) Wording for guidance on 'customer';
- (d) Placement of the guidance on 'customer';
- (e) Manner in which staff have addressed 'economic' and 'commercial substance';
- (f) Placement of the guidance paragraphs on 'economic substance';
- (g) Analysis that the following should be included in the [draft] Ed as enforcement mechanisms;
 - (i) Legislation or Executive Authority;
 - (ii) Cabinet and Ministerial Directives;
 - (iii) Sovereign Rights; and
 - (iv) Ability to reduce future funding (in certain circumstances);
- (h) Staff conclusion that economic coercion or political necessity is not a valid enforcement mechanism and therefore should not be included in the [draft] ED;
- (i) Wording of the guidance on enforceability;
- (j) Placement of the guidance on enforceability;
- (k) Wording for guidance on 'distinct goods and services'; and
- (l) Placement of the guidance for 'distinct goods and services'.

Appendix A to Agenda Item 9.2.1

Appendix A - Location of the terms in the Standards

Table showing the various locations of the terms in the Standards⁴

Term	Location
Binding Agreement.	Conceptual Framework, Cash Basis IPSAS, IPSAS 14, 19, 23 and 41.
Binding Arrangement.	Conceptual Framework, Cash Basis IPSAS, IPSAS 11, 23, 31, 33, 32, 35, 36, 37, 38, 39, 40 and 41.
Binding Sale Agreement.	IPSAS 19, 21 and 26.
Binding Transfer Agreement.	IPSAS 19 and 23.
Legally Binding Arrangement.	Conceptual Framework and IPSAS 39.
Legally Binding Commitment.	IPSAS 39.
Other Binding Arrangement.	Conceptual Framework, Cash Basis IPSAS, IPSAS 23, 35, 36, 40 and 41.
Related Binding Arrangement.	IPSAS 31 and 40.
Similar Binding Arrangement.	IPSAS 11 and 32.
Consideration.	Conceptual Framework, Cash Basis IPSAS, IPSAS 2, 9, 11, 12, 16, 17, 19, 23, 26, 31, 32, 33, 35, 37, 40 and 41.
Customer.	IPSAS 2, 9, 11, 12, 13, 17, 18, 19, 20, 23, 31, 35, 37, 38, 40 and 41.
Exchange.	Conceptual Framework, Cash Basis IPSAS, IPSAS 1, 2, 4, 9, 12, 16, 17, 19, 21, 22, 23, 27, 31, 32, 33, 39, 40 and 41.

⁴ The Conceptual Framework for General Purpose Financial Reporting, Financial Reporting Under the Cash Basis of Accounting, IPSAS 2, *Cash Flow Statements*, IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, IPSAS 5, *Borrowing Costs*, IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, IPSAS 12, *Inventories*, IPSAS 13, *Leases*, IPSAS 14, *Events After Reporting Date*, IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant and Equipment*, IPSAS 18, *Segment Reporting*, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 20, *Related Party Disclosures*, IPSAS 21, *Impairment of Non-Cash Generating Assets*, IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, IPSAS 24, *Presentation of Budget Information in Financial Statements*, IPSAS 26, *Impairment of Cash-Generating Assets*, IPSAS 27, *Agriculture*, IPSAS 31, *Intangible Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investment in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 38, *Disclosure of Interests in Other Entities*, IPSAS 39, *Employee Benefits*, IPSAS 40, *Public Sector Combinations* and IPSAS 41, *Financial Instruments*.

Appendix B to Agenda Item 9.2.1

Appendix B - Contract Assets and Contract Liabilities

Table showing the various options for the terms “Contract Asset” and “Contract Liability”, and “Binding Arrangement Asset”, and “Binding Arrangement Liability”.

	Option	Advantage	Disadvantages
1.	Continue use of Contract Asset and Contract Liability.	a) Encourages convergence with IFRS 15 because the terms, “contract asset”, and “contract liability”, are retained.	a) Does not take into account the requirements of the public sector, because the principle is that, assets and liabilities only arise from contracts and not binding arrangements.
2.	Highlight that Assets and Liabilities arise from both Binding Arrangements and Contracts.	a) Encourages convergence with IFRS 15 because the terms, “contract asset”, and “contract liability”, are retained.	a) Partially takes into account the requirements of the public sector, because the principle is that, assets and liabilities arise from both binding arrangements and contracts.
3.	Replace Contract Asset and Contract Liability with Binding Arrangement Asset and Liability.	a) Takes into account the requirements of the public sector, because the principle is that, assets and liabilities arise from both binding arrangements and contracts.	a) Discourage convergence with IFRS 15 because the terms, “contract asset”, and “contract liability”, are replaced with the terms, “binding arrangement asset”, and “binding arrangement liability”.
4.	Concurrent use of Contract Asset and Contract Liability with Binding Arrangement Asset and Liability	a) Takes into account the requirements of the public sector, because the principle is that, assets and liabilities arise from both binding arrangements and contracts b) Encourages convergence with IFRS 15 because the terms, “contract asset” and “contract liability”, are retained.	a) The cost of preparing financial statements could exceed the benefits thereof as preparers are required to identify and distinguish between assets and liabilities arising from binding arrangements and contracts.

Exposure Draft
[Issued]
Comments due: [Date]

*Proposed International Public Sector Accounting
Standard®*

Revenue from Contracts or
Other Binding Arrangements
with Customers

Revenue from Transactions
with Performance Obligations

IPSASB

International Public
Sector Accounting
Standards Board®

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

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, ~~Revenue from Contracts or Other Binding Arrangements with Customers~~ [~~Revenue from Transactions with Performance Obligations~~], was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

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

EXPOSURE DRAFT XX, REVENUE FROM ~~CONTRACTS OR OTHER BINDING ARRANGEMENTS WITH CUSTOMER~~TRANSACTIONS WITH PERFORMANCE OBLIGATIONS

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract or other binding arrangement with a customer.

Meeting the Objective

2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
3. An entity shall consider the terms of the contract or other binding arrangement and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to contracts or other binding arrangements with similar characteristics and in similar circumstances.
4. This [draft] Standard specifies the accounting for an individual contract or other binding arrangement with a customer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of contracts or other binding arrangements (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual contracts or other binding arrangements (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Scope

5. An entity shall apply this [draft] Standard to all contracts or other binding arrangements with customers, except the following:
 - (a) Lease contracts or other binding arrangements within the scope of ~~IFRS 16 Leases~~ IPSAS 13, *Leases*⁵;
 - (b) ~~Insurance~~ Contracts or other binding arrangements within the scope of the relevant international or national accounting standard dealing with insurance contracts⁶; ~~IFRS 17 Insurance Contracts~~. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of IFRS 17;
 - (c) Financial instruments and other contractual or binding arrangement rights or obligations within the scope of ~~IFRS 9 Financial Instruments, IPSAS 41, Financial Instruments, IFRS 10 Consolidated Financial Statements, IPSAS 35, Consolidated Financial Statements, IFRS 11 Joint Arrangements, IPSAS 37, Joint Arrangements, IAS 27 Separate Financial Statements, IPSAS 34, Separate Financial Statements~~ and ~~IAS 28 Investments in~~

⁵ The IPSASB has a project to replace IPSAS 13, *Leases*. Refer to Exposure Draft (ED) 64, *Leases*. If an entity applies this [draft] Standard but does not yet apply Exposure Draft 64, *Leases*, any reference in this [draft] Standard to ED 64 shall be read as a reference to IPSAS 13, *Leases*.

⁶ There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on Insurance contracts.

~~Associates and Joint Ventures~~ IPSAS 36, Investments in Associates and Joint Ventures;
and

- (d) Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this [draft] Standard would not apply to a contract or other binding arrangement between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.
6. An entity shall apply this [draft] Standard to a contract or other binding arrangement (other than a contract or other binding arrangement listed in paragraph ~~55~~) only if the counterparty to the contract or other binding arrangement is a customer. A customer is a party that has contracted or entered into other binding arrangements with an entity to obtain goods or services that are an output of the entity's ~~ordinary~~ activities in exchange for consideration. A counterparty to the contract or other binding arrangement would not be a customer if, for example, the counterparty has contracted or entered into other binding arrangements with the entity to participate in an activity or process in which the parties to the contract or other binding arrangement share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ~~ordinary~~ activities.
7. A contract or other binding arrangement with a customer may be partially within the scope of this [draft] Standard and partially within the scope of other Standards listed in paragraph ~~5~~.
- (a) If the other Standards specify how to separate and/or initially measure one or more parts of the contract or other binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction price the amount of the part (or parts) of the ~~contract~~ contract or other binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs ~~74 73–8786~~ to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of this [draft] Standard and to any other parts of the contract or other binding arrangement identified by paragraph ~~7(b).7(b)~~.
- (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract or other binding arrangement, then the entity shall apply this [draft] Standard to separate and/or initially measure the part (or parts) of the contract or other binding arrangement.
8. This [draft] Standard specifies the accounting for the incremental costs of obtaining a contract or other binding arrangement with a customer and for the costs incurred to fulfil a contract or other binding arrangement with a customer if those costs are not within the scope of another Standard (see paragraphs ~~92 94–105104~~). An entity shall apply those paragraphs only to the costs incurred that relate to a contract or other binding arrangement with a customer (or part of that contract or other binding arrangement) that is within the scope of this [draft] Standard.

Definitions

9. The following terms are used in this [draft] ~~[draft]~~ Standard with the meanings specified:
- A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

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

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

A binding arrangement liability or contract -liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. A binding arrangement liability arises from other binding arrangements. A contract liability arises from a contract.

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

~~Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.~~

Performance obligation is a promise in a contract or other binding arrangement with a customer to transfer to the customer either:

- (a) A good or service (or a bundle of goods or services) that is distinct; or
- (b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

~~Revenue is income arising in the course of an entity's ordinary activities. Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in increase in net assets or equity, other than increases relating to contributions from owners.~~

Stand-alone selling price (of a good or service) is the price at which an entity would sell a promised good or service separately to a customer.

Transaction price (for a contract or other binding arrangement with a customer) is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The customer is the party that pays consideration for the goods and services and is not necessarily the party that receives the goods and services. The delivery of public services often involves three parties. In these three-party (tripartite) arrangements, the customer has a binding arrangement with and pays consideration to the entity to deliver public services to a third-party beneficiary. The customer can also enforce delivery of those goods and services. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over 55, the central government is the customer and the citizens are the beneficiaries of the service.

Recognition

Identifying the eContract or Other Binding Arrangement

10. An entity shall account for a contract or other binding arrangement with a customer that is within the scope of this [draft] Standard only when all of the following criteria are met:

- (a) The parties to the contract or other binding arrangement have approved the contract or other binding arrangement (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- (b) The entity can identify each party's rights regarding the goods or services to be transferred;
- (c) The entity can identify the payment terms for the goods or services to be transferred;
- (d) The contract or other binding arrangement has ~~commercial-economic~~ substance⁷ (i.e., the risk, timing or amount of the entity's future cash flows⁷ is expected to change as a result of the contract or other binding arrangement); and
- (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract or other binding arrangement if the consideration is variable because the entity may offer the customer a price concession (see paragraph ~~53~~52).

In some jurisdictions, governments and public sector entities may not enter into legal obligations in their own name, therefore they are not able to enter into contracts which by their very nature are enforceable by law. However, these entities may be able to enter into other agreements which create a binding arrangement. A binding arrangement by definition confers enforceable rights and obligations on the parties to it as if it was in the form of a contract and 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 to the arrangement. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contract between parties.

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

- (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
- (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) The differences in (a) and (b) is significant relative to the fair value of the assets exchanged.

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 result of these analyses may be clear without an entity having to perform detailed calculations.

⁷ Economic substance which includes commercial substance, relates to the risk, timing or amount of an entity's cash flows or service potential that is expected to change as a result of the contract or other binding arrangement

11. A contract or other binding arrangement is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract ~~or other binding arrangement~~ is a matter of law. However, for other—binding arrangements enforcement mechanisms outside the legal system may be required. Contracts or other binding arrangements can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts or other binding arrangements with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer 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 customer creates enforceable rights and obligations.

One of the key characteristics of a contract or other binding arrangement is that the agreement creates enforceable rights and obligations through legal or equivalent means. As stated in paragraph 11, enforceability of the rights and obligations in a contract is a matter of law. However, in the public sector, some entities are not able to contract in their own right but may enter into other binding arrangements, therefore the promises in these arrangements must be enforceable by mechanisms equivalent to legal means.

Other enforceability mechanisms can take many forms and may be jurisdictionally specific. But a key feature is that either the customer or a separate party must have the ability and authority to compel the entity to fulfil the promises established within the agreement or to seek recourse should those promises not be fulfilled.

Following are some examples of enforcement mechanisms by legal or equivalent means:

- (a) Legislation or Executive Authority;
- (b) Cabinet and Ministerial Directives;
- (c) Sovereign rights;
- (d) [Reduction of future funding; and]
- (e) [Economic coercion or political necessity].

Legal or Executive Authority form part of a jurisdictions legal framework and therefore create a legal enforcement mechanism.

Cabinet and Ministerial Directives create an enforcement mechanism by equivalent means between different government departments or different levels of the same government structure.

Sovereign rights would only be considered an enforcement mechanism if the agreement includes details of how these rights would be used to enforce the delivery of goods and services by the entity.

[In general an ability to reduce future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present agreement to provide the entity with any future funding, therefore the customer does not have a liability to the entity from which to reduce such funding.

However, if the entity was presently entitled to funding in the future this would be considered a valid enforcement mechanism that could be enforced through legal means.]

[If an entity were solely reliant on the funding from the customer for all its operations then economic coercion or political necessity may give rise to a situation whereby an entity, although

not obliged to fulfill the promises within an agreement, is compelled to do so because the economic or political consequences of not doing so are such that the entity may have little or no realistic alternative but to fulfill those promises. In such circumstances this may be considered a valid enforceability mechanism.]

Past history of non-enforcement does not affect the enforceability of future agreements, the key factor is that the customer has the capacity [ability] to enforce its rights.

Paragraph 10 requires that in a binding arrangement, the entity can identify each party's rights regarding the goods or services to be transferred, therefore for an enforcement mechanism to be valid in the context of this Standard, it must be inherent within the agreement.

If a binding arrangement is unenforceable it is outside the scope of this [draft] Standard.

~~41-12.~~ Some contracts or other binding arrangements with customers may have no fixed duration and can be terminated or modified by either party at any time. Other contracts or other binding arrangements may automatically renew on a periodic basis that is specified in the contract or other binding arrangement. An entity shall apply this [draft] Standard to the duration of the contract or other binding arrangement (i.e., the contractual or other binding arrangement period) in which the parties to the contract or other binding arrangement have present enforceable rights and obligations.

~~42-13.~~ For the purpose of applying this [draft] Standard, a contract or other binding arrangement does not exist if each party to the contract or other binding arrangement has the unilateral enforceable right to terminate a wholly unperformed contract or other binding arrangement without compensating the other party (or parties). A contract or other binding arrangement is wholly unperformed if both of the following criteria are met:

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

~~43-14.~~ If a contract or other binding arrangement with a customer meets the criteria in paragraph-~~109~~ at contract or other binding arrangement inception, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customer.

~~44-15.~~ If a contract or other binding arrangement with a customer does not meet the criteria in paragraph-~~109~~, an entity shall continue to assess the contract or other binding arrangement to determine whether the criteria in paragraph 109 are subsequently met.

~~45-16.~~ When a contract or other binding arrangement with a customer does not meet the criteria in paragraph-~~109~~ and an entity receives consideration from the customer, the entity shall recognize the consideration received as revenue only when either of the following events has occurred:

- (a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

- (b) The contract or other binding arrangement has been terminated and the consideration received from the customer is non-refundable.

~~16-17.~~ An entity shall recognize the consideration received from a customer as a liability until one of the events in paragraph ~~16-15~~ occurs or until the criteria in paragraph 109 are subsequently met (see paragraph ~~15-14~~). Depending on the facts and circumstances relating to the contract or other binding arrangement, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

Combination of Contracts or Other Binding Arrangements

~~17-18.~~ An entity shall combine two or more contracts or other binding arrangements entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts or other binding arrangements as a single contract or other binding arrangement if one or more of the following criteria are met:

- (a) The contracts or other binding arrangements are negotiated as a package with a single ~~commercial-economic~~ objective;
- (b) The amount of consideration to be paid in one contract or other binding arrangement depends on the price or performance of the other contract or other binding arrangement; or
- (c) The goods or services promised in the contracts or other binding arrangements (or some goods or services promised in each of the contracts or other binding arrangements) are a single performance obligation in accordance with paragraphs ~~23-22~~–~~31-30~~.

Contract or Other Binding Arrangement ~~modifications~~ Modifications

~~18-19.~~ A contract or other binding arrangement modification is a change in the scope or price (or both) of a contract or other binding arrangement that is approved by the parties to the contract or other binding arrangement. In some industries and jurisdictions, a contract or other binding arrangement modification may be described as a change order, a variation or an amendment. A contract or other binding arrangement modification ~~exists~~ when the parties to a contract or other binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract or other binding arrangement. A contract or other binding arrangement modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract or other binding arrangement have not approved a contract or other binding arrangement modification, an entity shall continue to apply this ~~[draft]~~ Standard to the existing contract or other binding arrangement until the contract or other binding arrangement modification is approved.

~~19-20.~~ A contract or other binding arrangement modification may exist even though the parties to the contract or other binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the contract or other binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the contract or other binding arrangement and other evidence. If the parties to a contract or other binding arrangement have approved a change in the scope of the contract or other binding arrangement but have not yet determined the corresponding change in price, an entity shall estimate the change to the transaction price arising from the modification in accordance with

paragraphs ~~51~~ 50–~~55~~54 on estimating variable consideration and paragraphs ~~57~~ 56–~~59~~58 on constraining estimates of variable consideration.

~~20~~21. An entity shall account for a contract or other binding arrangement modification as a separate contract or other binding arrangement if both of the following conditions are present:

- (a) The scope of the contract or other binding arrangement increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs ~~27~~ 26–~~31~~30); and
- (b) The price of the contract or other binding arrangement increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract or other binding arrangement. For example, an entity may adjust the stand-alone selling price of an additional good or service for a discount that the customer receives, because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer.

~~21~~22. If a contract or other binding arrangement modification is not accounted for as a separate contract or other binding arrangement in accordance with paragraph ~~21~~20, an entity shall account for the promised goods or services not yet transferred at the date of the contract or other binding arrangement modification (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

- (a) An entity shall account for the contract or other binding arrangement modification as if it were a termination of the existing contract or other binding arrangement and the creation of a new contract or other binding arrangement, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract or other binding arrangement modification. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph ~~23(b)~~22(b)) is the sum of:
 - (i) The consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognized as revenue; and
 - (ii) The consideration promised as part of the contract or other binding arrangement modification.
- (b) An entity shall account for the contract or other binding arrangement modification as if it were a part of the existing contract or other binding arrangement if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract or other binding arrangement modification. The effect that the contract or other binding arrangement modification has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract or other binding arrangement modification (i.e., the adjustment to revenue is made on a cumulative catch-up basis).
- (c) If the remaining goods or services are a combination of items ~~(a)~~ and ~~(b)~~, then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract or other binding arrangement in a manner that is consistent with the objectives of this paragraph.

Identifying ~~P~~performance ~~obligations~~ Obligations

~~22-23.~~ 22-23. At contract or other binding arrangement inception, an entity shall assess the goods or services promised in a contract or other binding arrangement with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

- (a) A good or service (or a bundle of goods or services) that is distinct; or
- (b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph ~~2423~~).

~~23-24.~~ 23-24. A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

- (a) Each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph ~~3635~~ to be a performance obligation satisfied over time; and
- (b) In accordance with paragraphs ~~4039~~–~~4140~~, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

Promises in ~~C~~ontracts or Other Binding Arrangements with ~~customers~~ Customers

~~24-25.~~ 24-25. A contract or other binding arrangement with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract or other binding arrangement with a customer may not be limited to the goods or services that are explicitly stated in that contract or other binding arrangement. This is because a contract or other binding arrangement with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract or other binding arrangement, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer.

~~25-26.~~ 25-26. Performance obligations do not include activities that an entity must undertake to fulfil a contract or other binding arrangement unless those activities transfer a good or service to a customer. For example, a services provider may need to perform various administrative tasks to set up a contract or other binding arrangement. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not a performance obligation.

Distinct ~~g~~Goods or ~~services~~ Services

~~26-27.~~ 26-27. Depending on the contract or other binding arrangement, promised goods or services may include, but are not limited to, the following:

- (a) Sale of goods produced by an entity (for example, inventory of a manufacturer);
- (b) Resale of goods purchased by an entity (for example, merchandise of a retailer);
- (c) Resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal, as described in paragraphs ~~AG34~~ ~~B34~~–~~AG42~~ ~~B38~~);
- (d) Performing a contractually or other binding arrangement agreed-upon task (or tasks) for a customer;

- (e) Providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;
- (f) Providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party, as described in paragraphs ~~AG34~~ B34–~~AG42~~ B38);
- (g) Granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);
- (h) Constructing, manufacturing or developing an asset on behalf of a customer;
- (i) Granting licenses (see paragraphs ~~AG56~~ B52–~~AG69~~ B63B); and
- (j) Granting options to purchase additional goods or services (when those options provide a customer with a material right, as described in paragraphs ~~AG43~~ B39–~~AG47~~ B43).

27-28. A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) The customer can benefit or receive service potential from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct); and
- (b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract or other binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the contract or other binding arrangement).

When determining if goods and services are distinct an entity should also give consideration to identifying the nature, cost, value or volume of those good and services.

28-29. A customer can benefit or receive service potential from a good or service in accordance with paragraph ~~28(a)~~ 27(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 customer may be able to benefit or receive service potential from a good or service on its own. For other goods or services, a customer may be able to benefit or receive 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 customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract or other binding arrangement) or from other transactions or events. Various factors may provide evidence that the customer can benefit or receive service potential from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit or receive service potential from the good or service on its own or with other readily available resources.

29-30. In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph ~~28(b)~~ 27(b), the objective is to determine whether the nature of the promise, within the context of the contract or other binding arrangement,

is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a customer 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 contract or other binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted or entered into other 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 customer. A combined output or outputs might include more than one phase, element or unit.
- (b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the contract or other 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 contract or other 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 fulfil its promise by transferring each of the goods or services independently.

~~30-31.~~ If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract or other binding arrangement as a single performance obligation.

Satisfaction of ~~p~~Performance obligationsObligations

~~31-32.~~ An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

~~32-33.~~ For each performance obligation identified in accordance with paragraphs ~~23-22-31~~~~30~~, an entity shall determine at contract or other binding arrangement inception whether it satisfies the performance obligation over time (in accordance with paragraphs ~~36-35-38~~~~37~~) or satisfies the performance obligation at a point in time (in accordance with paragraph ~~39~~~~38~~). If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

~~33-34.~~ Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits or service potential from, an asset. The benefits or service potential of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

- (a) Using the asset to produce goods or provide services (including public services);
- (b) Using the asset to enhance the value of other assets;
- (c) Using the asset to settle liabilities or reduce expenses;
- (d) Selling or exchanging the asset;

- (e) Pledging the asset to secure a loan; and
- (f) Holding the asset.

~~34-35.~~ When evaluating whether a customer obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs ~~_AG70_B64–_AG81B76~~).

Performance ~~o~~Obligations ~~satisfied~~ Satisfied over Over timeTime

~~35-36.~~ An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits or service potential provided by the entity's performance as the entity performs (see paragraphs ~~_AG3_B3–_AG4B4~~);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph ~~_AG5B5~~); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph ~~_3736~~) and the entity has an enforceable right to payment for performance completed to date (see paragraph ~~_3837~~).

~~36-37.~~ An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted contractually or by other binding arrangements 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 contract or other binding arrangement inception. After contract or other binding arrangement inception, an entity shall not update the assessment of the alternative use of an asset unless the parties to the contract or other binding arrangement approve a contract or other binding arrangement modification that substantively changes the performance obligation. Paragraphs ~~_AG6_B6–_AG8B8~~ provide guidance for assessing whether an asset has an alternative use to an entity.

~~37-38.~~ An entity shall consider the terms of the contract or other binding arrangement, as well as any laws that apply to the contract or other binding arrangement, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph ~~_36(c)35(c)~~. The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the contract or other binding arrangement, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract or other binding arrangement is terminated by the customer or another party for reasons other than the entity's failure to perform as promised. Paragraphs ~~_AG9_B9–_AG13B13~~ provide guidance for assessing the existence and enforceability of a right to payment and whether an entity's right to payment would entitle the entity to be paid for its performance completed to date.

Performance ~~o~~Obligations ~~satisfied~~ Satisfied at a pointPoint in timeTime

~~38-39.~~ If a performance obligation is not satisfied over time in accordance with paragraphs ~~_36_35–_3837~~, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs ~~_32_31–_3534~~. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- (a) The entity has a present right to payment for the asset—if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset in exchange.
- (b) The customer has legal title to the asset—legal title may indicate which party to a contract or other binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, an asset or to restrict the access of other entities to those benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.
- (c) The entity has transferred physical possession of the asset—the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset or to restrict the access of other entities to those 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 customer 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 customer controls. Paragraphs AG70B64–AG81B76, AG83B77–AG84B78 and AG85B79–AG88B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.
- (d) The customer 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 customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.
- (e) The customer has accepted the asset—the customer'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 benefits and service potential from, the asset. To evaluate the effect of a contractual or other binding arrangement customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG89B83–AG92B86.

Measuring ~~p~~Progress towards ~~complete~~ Complete ~~satisfaction~~ Satisfaction of a ~~performance~~ Performance ~~obligation~~ Obligation

39.40. For each performance obligation satisfied over time in accordance with paragraphs ~~36_35–3837~~, an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e., the satisfaction of an entity's performance obligation).

40.41. An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar

performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for ~~m~~Measuring ~~progress~~Progress

~~41.42.~~ Appropriate methods of measuring progress include output methods and input methods. Paragraphs ~~AG14_B14~~ ~~AG19B19~~ provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the customer.

~~42.43.~~ When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to a customer. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a customer when satisfying that performance obligation.

~~43.44.~~ As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with ~~IASIPSAS_8-3~~ *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reasonable ~~m~~Measures of ~~progress~~Progress

~~44.45.~~ An entity shall recognize revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

~~45.46.~~ In some circumstances (for example, in the early stages of a contract ~~or other binding arrangement~~), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Measurement

~~46.47.~~ When (or as) a performance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs ~~57_56~~ ~~5958~~) that is allocated to that performance obligation.

Determining the ~~T~~transaction-~~price~~Price

~~47.48.~~ An entity shall consider the terms of the contract ~~or other binding arrangement~~ and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract ~~or other binding arrangement~~ with a customer may include fixed amounts, variable amounts, or both.

~~48-49.~~ The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following:

- (a) Variable consideration (see paragraphs ~~_51_50_~~ ~~_56_55_~~ and ~~_6059_~~);
- (b) Constraining estimates of variable consideration (see paragraphs ~~_5756_~~ ~~_5958_~~);
- (c) The existence of a significant financing component in the contract or other binding arrangement (see paragraphs ~~_61_60_~~ ~~_6665_~~);
- (d) Non-cash consideration (see paragraphs ~~_67_66_~~ ~~_7069_~~); and
- (e) Consideration payable to a customer (see paragraphs ~~_71_70_~~ ~~_7372_~~).

~~49-50.~~ For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract or other binding arrangement and that the contract or other binding arrangement will not be cancelled, renewed or modified.

Variable ~~e~~Consideration

~~50-51.~~ If the consideration promised in a contract or other binding arrangement includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

~~51-52.~~ An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

~~52-53.~~ The variability relating to the consideration promised by a customer may be explicitly stated in the contract or other binding arrangement. In addition to the terms of the contract or other binding arrangement, the promised consideration is variable if either of the following circumstances exists:

- (a) The customer has a valid expectation arising from an entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract or other binding arrangement. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry or customer this offer may be referred to as a discount, rebate, refund or credit.
- (b) Other facts and circumstances indicate that the entity's intention, when entering into the contract or other binding arrangement with the customer, is to offer a price concession to the customer.

~~53-54.~~ An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

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

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

~~54-55.~~ An entity shall apply one method consistently throughout the contract or other binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund ~~liabilities~~

~~55-56.~~ An entity shall recognize a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the contract or other 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 ~~AG20_B20~~ AG27B27.

Constraining ~~Estimates of Variable consideration~~Consideration

~~56-57.~~ An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph ~~5453~~ only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

~~57-58.~~ In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
- (b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
- (c) The entity's experience (or other evidence) with similar types of contracts or other 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 contracts or other binding arrangements in similar circumstances.

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

~~58-59.~~ An entity shall apply paragraph ~~AG67B63~~ 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 ~~vVariable~~ consideration Consideration

~~59-60.~~ At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction price in accordance with paragraphs ~~88_87-~~ 9190.

The ~~e~~Existence of a ~~s~~Significant ~~f~~Financing ~~e~~Component in the ~~e~~Contract or Other Binding Arrangement

~~60-61.~~ In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract or other binding arrangement (either explicitly or implicitly) provides the customer or the entity with a significant benefit or service potential of financing the transfer of goods or services to the customer. In those circumstances, the contract or other 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 contract or other binding arrangement or implied by the payment terms agreed to by the parties to the contract or other binding arrangement.

~~61-62.~~ The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (i.e., the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a contract or other binding arrangement contains a financing component and whether that financing component is significant to the contract or other binding arrangement, including both of the following:

- (a) The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and
- (b) The combined effect of both of the following:
 - (i) The expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and
 - (ii) The prevailing interest rates in the relevant market.

~~62-63.~~ Notwithstanding the assessment in paragraph ~~6264~~, a contract or other binding arrangement with a customer would not have a significant financing component if any of the following factors exist:

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

- (b) A substantial amount of the consideration promised by the customer 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 customer or the entity (for example, if the consideration is a sales-based royalty).
- (c) The difference between the promised consideration and the cash selling price of the good or service (as described in paragraph_62~~64~~) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract or other binding arrangement.

~~63-64.~~ As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract or other binding arrangement inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

~~64-65.~~ To meet the objective in paragraph_62~~64~~ when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract or other binding arrangement inception. That rate would reflect the credit characteristics of the party receiving financing in the contract or other binding arrangement, as well as any collateral or security provided by the customer or the entity, including assets transferred in the contract or other binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer. After contract or other binding arrangement inception, 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 customer's credit risk).

~~65-66.~~ An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from contracts or other binding arrangements with customers in the statement of ~~comprehensive income~~financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset or contract_asset (or receivable) or a binding arrangement liability or contract_liability is recognized in accounting for a contract-or other binding arrangement with a customer.

Non-Cash ~~C~~consideration

~~66-67.~~ To determine the transaction price for contracts or other binding arrangements in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

~~67-68.~~ 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 selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

~~68-69.~~ The fair value of the non-cash consideration may vary because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the fair value could vary

because of the entity's performance), an entity shall apply the requirements in paragraphs ~~57_56~~–~~5958~~.

~~69_70~~. If a customer contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's fulfilment of the contract or other 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 customer.

Consideration ~~p~~Payable to a ~~customer~~Customer

~~70_71~~. Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer 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 customer). An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs ~~27_26~~–~~3130~~) that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs ~~51_50~~–~~5958~~.

~~71_72~~. If consideration payable to a customer is a payment for a distinct good or service from the customer, 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 customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

~~72_73~~. Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

- (a) The entity recognizes revenue for the transfer of the related goods or services to the customer; 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 business practices.

Allocating the ~~t~~Transaction ~~P~~price to ~~P~~performance-~~e~~Obligations

~~73_74~~. The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

~~74_75~~. To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the contract or other binding arrangement on a relative stand-alone selling price basis in accordance with paragraphs ~~77_76~~–~~8180~~, except as specified in paragraphs ~~82_81~~–~~8483~~ (for allocating discounts) and paragraphs ~~85_84~~–~~8786~~ (for allocating consideration that includes variable amounts).

~~75-76.~~ Paragraphs ~~77-76-87 86~~ do not apply if a contract or other binding arrangement has only one performance obligation. However, paragraphs ~~85-84-8786~~ may apply if an entity promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph ~~23(b)22(b)~~ and the promised consideration includes variable amounts.

Allocation ~~b~~Based on ~~stand~~Stand-Alone selling ~~Selling~~ pricesPrices

~~76-77.~~ To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract or other binding arrangement inception of the distinct good or service underlying each performance obligation in the contract or other binding arrangement and allocate the transaction price in proportion to those stand-alone selling prices.

~~77-78.~~ The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually or other binding arrangement stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

~~78-79.~~ If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective in paragraph ~~7473~~. When estimating a stand-alone selling price, an entity shall consider all information (including market conditions, entity-specific factors and information about the customer or class of customer) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

~~79-80.~~ Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:

- (a) Adjusted market assessment approach—an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.
- (b) Expected cost plus a margin approach—an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.
- (c) Residual approach—an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract or other binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph ~~7978~~, the stand-alone selling price of a good or service only if one of the following criteria is met:
 - (i) The entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (i.e., the selling price is highly variable because a representative stand-alone selling price is not discernible from past transactions or other observable evidence); or

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

~~80-81.~~ A combination of methods may need to be used to estimate the stand-alone selling prices of the goods or services promised in the contract or other binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone selling prices. For example, an entity may use a residual approach to estimate the aggregate stand-alone selling price for those promised goods or services with highly variable or uncertain stand-alone selling prices and then use another method to estimate the stand-alone selling prices of the individual goods or services relative to that estimated aggregate stand-alone selling price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone selling price of each promised good or service in the contract or other binding arrangement, the entity shall evaluate whether allocating the transaction price at those estimated stand-alone selling prices would be consistent with the allocation objective in paragraph ~~73 and~~ 74 and the requirements for estimating stand-alone selling prices in paragraph ~~79~~ 78.

Allocation of a Discount

~~81-82.~~ A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract or other binding arrangement exceeds the promised consideration in a contract or other binding arrangement. Except when an entity has observable evidence in accordance with paragraph ~~83~~ 82 that the entire discount relates to only one or more, but not all, performance obligations in a contract or other binding arrangement, the entity shall allocate a discount proportionately to all performance obligations in the contract or other binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.

~~82-83.~~ An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the contract or other binding arrangement if all of the following criteria are met:

- (a) The entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract or other binding arrangement on a stand-alone basis;
- (b) The entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and
- (c) The discount attributable to each bundle of goods or services described in paragraph ~~83(b)~~ 82(b) is substantially the same as the discount in the contract or other binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract or other binding arrangement belongs.

~~83-84.~~ If a discount is allocated entirely to one or more performance obligations in the contract or other binding arrangement in accordance with paragraph ~~83~~ 82, an entity shall allocate the discount before using the residual approach to estimate the stand-alone selling price of a good or service in accordance with paragraph ~~80(c)~~ 79(c).

Allocation of ~~v~~Variable ~~e~~Consideration

~~84-85.~~ Variable consideration that is promised in a contract or other binding arrangement may be attributable to the entire contract or other binding arrangement or to a specific part of the contract or other binding arrangement, such as either of the following:

- (a) One or more, but not all, performance obligations in the contract or other binding arrangement (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time); or
- (b) One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph ~~23(b)22(b)~~ (for example, the consideration promised for the second year of a two-year cleaning service contract or other binding arrangement will increase on the basis of movements in a specified inflation index).

~~85-86.~~ An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph ~~23(b)22(b)~~ if both of the following criteria are met:

- (a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and
- (b) Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph ~~7473~~ when considering all of the performance obligations and payment terms in the contract or other binding arrangement.

~~86-87.~~ The allocation requirements in ~~paragraphs 73paragraphs 74 74-83 shall~~84 shall be applied to allocate the remaining amount of the transaction price that does not meet the criteria in paragraph ~~8685~~.

Changes in the ~~t~~Transaction-~~p~~Price

~~87-88.~~ After contract or other binding arrangement inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

~~88-89.~~ An entity shall allocate to the performance obligations in the contract or other binding arrangement any subsequent changes in the transaction price on the same basis as at contract or other binding arrangement inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract or other binding arrangement inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

~~89-90.~~ An entity shall allocate a change in the transaction price entirely to one or more, but not all, performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph ~~23(b)22(b)~~ only if the criteria in paragraph ~~8685~~ on allocating variable consideration are met.

~~90-91.~~ An entity shall account for a change in the transaction price that arises as a result of a contract or other binding arrangement-modification in accordance with paragraphs ~~19 18-22~~24. However, for a change in the transaction price that occurs after a contract or other binding

arrangement modification, an entity shall apply paragraphs ~~88_87–90~~~~89~~ to allocate the change in the transaction price in whichever of the following ways is applicable:

- (a) An entity shall allocate the change in the transaction price to the performance obligations identified in the contract or other binding arrangement before the modification if, and to the extent that, the change in the transaction price is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph ~~22(a)~~~~21(a)~~.
- (b) In all other cases in which the modification was not accounted for as a separate contract or other binding arrangement in accordance with paragraph ~~21~~~~20~~, an entity shall allocate the change in the transaction price to the performance obligations in the modified contract or other binding arrangement (i.e., the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Contract or Other Binding Arrangement eCosts

Incremental eCosts of Obtaining a eContract or Other Binding Arrangement

~~91-92.~~ An entity shall recognize as an asset the incremental costs of obtaining a contract or other binding arrangement with a customer if the entity expects to recover those costs.

~~92-93.~~ The incremental costs of obtaining a contract or other binding arrangement are those costs that an entity incurs to obtain a contract or other binding arrangement with a customer that it would not have incurred if the contract or other binding arrangement had not been obtained (for example, a sales commission).

~~93-94.~~ Costs to obtain a contract or other binding arrangement that would have been incurred regardless of whether the contract or other binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract or other binding arrangement is obtained.

~~94-95.~~ As a practical expedient, an entity may recognize the incremental costs of obtaining a contract or other binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to ~~f~~Fulfil a eContract or Other Binding Arrangement

~~95-96.~~ If the costs incurred in fulfilling a contract or other binding arrangement with a customer are not within the scope of another [draft] Standard (for example, IAS-IPSAS 12, Inventories, IPSAS-167, Property, Plant and Equipment or IPSAS-381, Intangible Assets), an entity shall recognize an asset from the costs incurred to fulfil a contract or other binding arrangement only if those costs meet all of the following criteria:

- (a) The costs relate directly to a contract or other binding arrangement or to an anticipated contract or other binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or other binding arrangement or costs of designing an asset to be transferred under a specific contract or other binding arrangement that has not yet been approved);
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) The costs are expected to be recovered.

~~96-97.~~ For costs incurred in fulfilling a contract or other binding arrangement with a customer that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

~~97-98.~~ Costs that relate directly to a contract or other binding arrangement (or a specific anticipated contract or other binding arrangement) include any of the following:

- (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to the customer);
- (b) Direct materials (for example, supplies used in providing the promised services to a customer);
- (c) Allocations of costs that relate directly to the contract or other binding arrangement or to contract or other binding arrangement activities (for example, costs of contract or other binding arrangement management and supervision, insurance and depreciation of tools, equipment and right-of-use assets used in fulfilling the contract or other binding arrangement);
- (d) Costs that are explicitly chargeable to the customer under the contract or other binding arrangement; and
- (e) Other costs that are incurred only because an entity entered into the contract or other binding arrangement (for example, payments to subcontractors).

~~98-99.~~ An entity shall recognize the following costs as expenses when incurred:

- (a) General and administrative costs (unless those costs are explicitly chargeable to the customer under the contract or other binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph ~~9897~~);
- (b) Costs of wasted materials, labor or other resources to fulfil the contract or other binding arrangement that were not reflected in the price of the contract or other binding arrangement;
- (c) Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract or other binding arrangement (i.e., costs that relate to past performance); and
- (d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Amortization and ~~l~~impairment

~~99-100.~~ An asset recognized in accordance with paragraph ~~92-91~~ or ~~9695~~ shall be ~~amortised~~amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under a specific anticipated contract or other binding arrangement (as described in paragraph ~~96(a)95(a)~~).

~~100-101.~~ An entity shall update the ~~amortisation~~amortization to reflect a significant change in the entity's expected timing of transfer to the customer of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS-8 3.

~~404.~~102. An entity shall ~~recognise~~recognize an impairment loss in ~~profit surplus~~ or ~~loss deficit~~ to the extent that the carrying amount of an asset ~~recognised~~recognized in accordance with paragraph ~~92.94~~ or ~~96.95~~ exceeds:

- (a) The remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less
- (b) The costs that relate directly to providing those goods or services and that have not been ~~recognised~~recognized as expenses (see paragraph ~~98.97~~).

~~402.~~103. For the purposes of applying paragraph ~~102.404~~ to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction price (except for the requirements in paragraphs ~~57.56~~ ~~59.58~~ ~~on 59.59~~ on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the customer's credit risk.

~~403.~~104. Before an entity ~~recognises~~recognizes an impairment loss for an asset ~~recognised~~recognized in accordance with paragraph ~~92.91~~ ~~or 92.92~~ or ~~96.95~~, the entity shall ~~recognise~~recognize any impairment loss for assets related to the contract or other binding arrangement that are ~~recognised~~recognized in accordance with another Standard (for example, ~~IPSAS—12~~, ~~IPSAS—167~~ and ~~IPSAS—381~~). After applying the impairment test in paragraph ~~102.404~~, an entity shall include the resulting carrying amount of the asset ~~recognised~~recognized in accordance with paragraph ~~92.91~~ ~~or 92.92~~ or ~~96.95~~ ~~in 96.96~~ in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying ~~IPSAS- 21 and 236~~, *Impairment of Assets* to that cash-generating ~~unit~~ and non-cash generating unit.

~~404.~~105. An entity shall ~~recognise~~recognize in ~~profit surplus~~ or ~~loss deficit~~ a reversal of some or all of an impairment loss previously ~~recognised~~recognized in accordance with paragraph ~~102.404~~ 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~~amortization) if no impairment loss had been ~~recognised~~recognized previously.

Presentation

~~405.~~106. When either party to a contract or other binding arrangement has performed, an entity shall present the contract or other binding arrangement in the statement of financial position as a binding arrangement asset or contract—asset or a binding arrangement liability or contract—liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

~~406.~~107. If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e., a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract or other binding arrangement as a binding arrangement liability or contract—liability—when the payment is made or the payment is due (whichever is earlier). A binding arrangement liability or contract—liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

~~407.~~108. If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract or other binding arrangement as a binding arrangement asset or contract—asset, excluding any amounts presented as a receivable. A binding arrangement asset or contract—asset is an entity's right to

consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a binding arrangement asset or contract asset for impairment in accordance with ~~IFRS 9~~ IPSAS 41. An impairment of ~~a binding arrangement asset or contract asset~~ shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of ~~IFRS 9~~ IPSAS 41 (see also paragraph ~~114(b)~~ 143(b)).

~~108.109.~~ A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would ~~recognise~~ recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with ~~IFRS 9~~ IPSAS 41. Upon initial recognition of a receivable from a contract or other binding arrangement with a customer, any difference between the measurement of the receivable in accordance with ~~IFRS 9~~ IPSAS 41 and the corresponding amount of revenue ~~recognised~~ recognized shall be presented as an expense (for example, as an impairment loss).

~~109.110.~~ This [draft] Standard uses the terms 'binding arrangement asset' or 'contract asset' and 'binding arrangement liability' or 'contract 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 or contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets or contract assets.

Disclosure

~~110.111.~~ 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 contracts or other binding arrangements with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- (a) Its contracts or other binding arrangements with customers (see paragraphs ~~114–123~~);
- (b) The significant judgements, and changes in the judgements, made in applying this [draft] Standard to those contracts or other binding arrangements (see paragraphs ~~124–127~~ 123–126); and
- (c) Any assets ~~recognised~~ recognized from the costs to obtain or fulfil a contract or other binding arrangements with a customer in accordance with paragraph ~~92–94~~ or 96 (see paragraphs ~~128–129~~ 127–128).

~~111.112.~~ An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

~~112.113.~~ An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

Contracts ~~or Other Binding Arrangements~~ with ~~customers~~ Customers

~~113.~~114. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of ~~comprehensive financial income performance~~ in accordance with other Standards:

- (a) Revenue ~~recognised~~recognized from contracts ~~or other binding arrangements~~ with customers, which the entity shall disclose separately from its other sources of revenue; and
- (b) Any impairment losses ~~recognised~~recognized (in accordance with ~~IFRS 9~~IPSAS 41) on any receivables or ~~binding arrangement assets or~~ contract assets arising from an entity's contracts ~~or other binding arrangements~~ with customers, which the entity shall disclose separately from impairment losses from other contracts ~~or other binding arrangements~~.

Disaggregation of ~~R~~revenue

~~114.~~115. An entity shall disaggregate revenue ~~recognised~~recognized from contracts ~~or other binding arrangements~~ with customers 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 ~~AG93 B87~~AG95B89 when selecting the categories to use to disaggregate revenue.

~~115.~~116. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph ~~115~~114) and revenue information that is disclosed for each reportable segment, if the entity applies ~~IFRS IPSAS 18, Operating Segments Reporting~~.

Contract ~~or Other Binding Arrangement~~ ~~B~~balances

~~116.~~117. An entity shall disclose all of the following:

- (a) The opening and closing balances of receivables, ~~binding arrangement assets or~~ contract ~~assets~~ and ~~binding arrangement liabilities or~~ contract ~~liabilities~~ from contracts ~~or other binding arrangements~~ with customers, if not otherwise separately presented or disclosed;
- (b) Revenue ~~recognised~~recognized in the reporting period that was included in the ~~binding arrangement liability or~~ contract ~~liability~~ balance at the beginning of the period; and
- (c) Revenue ~~recognised~~recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

~~117.~~118. An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph ~~120(a)~~119(a)) relates to the typical timing of payment (see paragraph ~~120(b)~~119(b)) and the effect that those factors have on the contract ~~asset~~ and the contract ~~liability~~ balances. The explanation provided may use qualitative information.

~~118.~~119. An entity shall provide an explanation of the significant changes in the ~~binding arrangement asset or~~ contract ~~asset~~ and the ~~binding arrangement liability or~~ contract ~~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 or~~ contract ~~assets~~ and ~~binding arrangement liabilities or~~ contract ~~liabilities~~ include any of the following:

- (a) Changes due to ~~business-public sector~~ combinations;

- (b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or contract—asset or binding arrangement liability or contract—liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract or other binding arrangement modification;
- (c) Impairment of a binding arrangement asset or contract—asset;
- (d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset or contract—asset to be reclassified to a receivable); and
- (e) A change in the time frame for a performance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability or contract—liability).

Performance-~~O~~bligations

~~119-120.~~ An entity shall disclose information about its performance obligations in contracts or other binding arrangements with customers, including a description of all of the following:

- (a) When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;
- (b) The significant payment terms (for example, when payment is typically due, whether the contract or other 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 ~~57-56-5958~~);
- (c) The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent);
- (d) Obligations for returns, refunds and other similar obligations; and
- (e) Types of warranties and related obligations.

Transaction ~~P~~rice ~~A~~llocated to the ~~R~~emaining ~~P~~erformance-~~O~~bligations

~~120-121.~~ An entity shall disclose the following information about its remaining performance obligations:

- (a) The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and
- (b) An explanation of when the entity expects to ~~recogniserecognize~~ as revenue the amount disclosed in accordance with paragraph ~~121(a)120(a)~~, which the entity shall disclose in either of the following ways:
 - (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or
 - (ii) By using qualitative information.

~~121-122.~~ As a practical expedient, an entity need not disclose the information in paragraph ~~121120~~ for a performance obligation if either of the following conditions is met:

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

- (b) The entity ~~recognises~~recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph ~~_AG16B~~16.

~~122.123.~~ An entity shall explain qualitatively whether it is applying the practical expedient in paragraph ~~_122~~124 and whether any consideration from contracts or other binding arrangements with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph ~~_121~~120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs ~~_57_56_59~~58).

Significant ~~J~~udgements in the ~~A~~pplication of this ~~[draft]~~ Standard

~~123.124.~~ An entity shall disclose the judgements, and changes in the judgements, made in applying this ~~[draft]~~ Standard that significantly affect the determination of the amount and timing of revenue from contracts or other binding arrangements with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:

- (a) The timing of satisfaction of performance obligations (see paragraphs ~~_125_124_126~~125); and
- (b) The transaction price and the amounts allocated to performance obligations (see paragraph ~~_127~~126).

Determining the ~~T~~iming of ~~S~~satisfaction of ~~P~~performance ~~O~~bligations

~~124.125.~~ For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

- (a) The methods used to ~~recognise~~recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and
- (b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

~~125.126.~~ For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.

Determining the ~~T~~ransaction ~~P~~rice and the ~~A~~mounts ~~A~~llocated to ~~P~~performance ~~_obligations~~Obligations

~~126.127.~~ An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

- (a) Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;
- (b) Assessing whether an estimate of variable consideration is constrained;
- (c) Allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract or other binding arrangement (if applicable); and
- (d) Measuring obligations for returns, refunds and other similar obligations.

**Assets ~~recognised~~Recognized from the ~~Costs to Obtain or Fulfil a Contract or~~
~~Other Binding Arrangement~~ with a ~~Customer~~**

~~127.~~128. 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 contract or other binding arrangement with a customer (in accordance with paragraph ~~92.94~~ or ~~9695~~); and
- (b) The method it uses to determine the ~~amortisation~~amortization for each reporting period.

~~128.~~129. An entity shall disclose all of the following:

- (a) The closing balances of assets ~~recognised~~recognized from the costs incurred to obtain or fulfil a contract or other binding arrangement with a customer (in accordance with paragraph ~~92.94~~ or ~~9695~~), by main category of asset (for example, costs to obtain contracts or other binding arrangements with customers, pre-contract or pre-other binding arrangement costs and setup costs); and
- (b) The amount of ~~amortisation~~amortization and any impairment losses ~~recognised~~recognized in the reporting period.

Practical ~~e~~Expedients

~~129.~~130. If an entity elects to use the practical expedient in either paragraph ~~64.63~~ (about the existence of a significant financing component) or paragraph ~~95.94~~ (about the incremental costs of obtaining a contract or other binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

~~131.~~ An entity shall apply this ~~[draft] [draft]~~ Standard for annual financial statements beginning on or after MM DD, YYYY. Earlier adoption is encouraged. If an entity applies this ~~[draft] [draft]~~ Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.

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

Transition

~~133.~~ For the purposes of the requirements in paragraphs 119–148, the date of initial application is the beginning of the annual reporting period in which an entity first applies this ~~[draft]~~ Standard. For the purposes of the transition requirements in paragraphs ~~134 – 139(b)~~:

- (a) The date of initial application is the start of the reporting period in which an entity first applies this ~~[draft]~~ Standard; and
- (b) A completed contract or other binding arrangement is a contract or other binding arrangement for which the entity has transferred all of the goods or services identified in accordance with IPSAS 11, *Construction Contracts* and IPSAS 9, *Revenue from Exchange Transactions*.

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

- (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 136; or
 - (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 138 – 139(b).
- 135. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the ‘immediately preceding period’) and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 134(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.
- 136. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 134(a):
 - (a) For completed contracts or other binding arrangements, an entity need not restate contracts or other binding arrangements that:
 - (i) Begin and end within the same annual reporting period; or
 - (ii) Are completed contracts or other binding arrangements at the beginning of the earliest period presented.
 - (b) For completed contracts or other binding arrangements that have variable consideration, an entity may use the transaction price at the date the contract or other binding arrangements was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - (c) For contracts or other binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract or other binding arrangements for those contract or other binding arrangement modifications in accordance with paragraphs 21 – 22. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - (i) Identifying the satisfied and unsatisfied performance obligations;
 - (ii) Determining the transaction price; and
 - (iii) Allocating the transaction price to the satisfied and unsatisfied performance obligations.
 - (d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 121).
- 137. For any of the practical expedients in paragraph 136 that an entity uses, the entity shall apply that expedient consistently to all contracts or other binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:
 - (a) The expedients that have been used; and
 - (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

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

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

- (a) For all contract or other binding arrangement modifications that occur before the beginning of the earliest period presented; or
- (b) For all contract or other binding arrangement modifications that occur before the date of initial application.

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

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

- (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 9, IPSAS 11; and
- (b) An explanation of the reasons for significant changes identified.

Withdrawal of Other Standards

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

- (a) IPSAS 9, *Revenue from Exchange Transactions*; and
- (b) IPSAS 11, *Construction Contracts*.

Appendix A

Application Guidance

This appendix is an integral part of the [draft] Standard. It describes the application of paragraphs 1 – 141 and has the same authority as the other parts of the [draft] Standard.

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

- (a) Performance obligations satisfied over time (paragraphs AG2 – AG13);
- (b) Methods for measuring progress towards complete satisfaction of a performance obligation (paragraphs AG14 – AG19);
- (c) Sale with a right of return (paragraphs AG20 – AG27);
- (d) Warranties (paragraphs AG28 – AG33);
- (e) Principal versus agent considerations (paragraphs AG34 – AG42);
- (f) Customer options for additional goods or services (paragraphs AG43 – AG47);
- (g) Customers' unexercised rights (paragraphs AG48 – AG51);
- (h) Non-refundable upfront fees (and some related costs) (paragraphs AG52 – AG55);
- (i) Licensing (paragraphs AG56 – AG69);
- (j) Repurchase agreements (paragraphs AG70 – AG81);
- (k) Consignment arrangements (paragraphs AG83 – AG84);
- (l) Bill-and-hold arrangements (paragraphs AG85 – AG88);
- (m) Customer acceptance (paragraphs AG89 – AG92); and
- (n) Disclosure of disaggregated revenue (paragraphs AG93 – AG95).

Performance Obligations Satisfied Over Time

~~AG1.~~ ~~AG2.~~ In accordance with paragraph ~~36~~~~35~~, a performance obligation is satisfied over time if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG3 – AG4);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph AG5); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG6 – AG8) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG9 – AG13).

Simultaneous Receipt and Consumption of the Benefits or Service Potential of the Entity's Performance (paragraph 36(a))

AG3. For some types of performance obligations, the assessment of whether a customer receives the benefits or service potential of an entity's performance as the entity performs and simultaneously consumes those 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 customer of the benefits or service potential of the entity's performance can be readily identified.

AG4. For other types of performance obligations, an entity may not be able to readily identify whether a customer simultaneously receives and consumes the benefits or service potential from the entity's performance as the entity performs. In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer. 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 contractual or other binding arrangement restrictions or practical limitations that otherwise would prevent the entity from transferring the remaining performance obligation to another entity; and
- (b) Presume that another entity fulfilling the remainder of the performance obligation would not have the benefit or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance obligation were to transfer to another entity.

Customer Controls the Asset as it is Created or Enhanced (paragraph 36(b))

AG5. In determining whether a customer controls an asset as it is created or enhanced in accordance with paragraph 36(b), an entity shall apply the requirements for control in paragraphs 32–35 and 39. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Performance does not Create an Asset with an Alternative use (paragraph 36(c))

AG6. In assessing whether an asset has an alternative use to an entity in accordance with paragraph 37, an entity shall consider the effects of contractual or other binding arrangement restrictions and practical limitations on the entity's ability to readily direct that asset for another use, such as selling it to a different customer. The possibility of the contract or other binding arrangement with the customer being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG7. A contractual or other binding arrangement restriction 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 contractual or other binding arrangement restriction is substantive if a customer could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a contractual or other binding arrangement restriction is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another customer without breaching the contract or other binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that contract or other binding arrangement.

AG8. 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 sell 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 customer or are located in remote areas.

Right to Payment for Performance Completed to Date (paragraph 36(c))

AG9. In accordance with paragraph 38, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the customer or another party terminates the contract or other binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the performance obligation plus a reasonable profit margin) rather than compensation for only the entity's potential loss of profit if the contract or other binding arrangement were to be terminated. Compensation for a reasonable profit margin need not equal the profit margin expected if the contract or other binding arrangement was fulfilled as promised, but an entity should be entitled to compensation for either of the following amounts:

- (a) A proportion of the expected profit margin in the contract or other binding arrangement that reasonably reflects the extent of the entity's performance under the contract or other binding arrangement before termination by the customer (or another party); or
- (b) A reasonable return on the entity's cost of capital for similar contracts or other binding arrangements (or the entity's typical operating margin for similar contracts or other binding arrangements) if the contract or other binding arrangement specific margin is higher than the return the entity usually generates from similar contracts or other binding arrangements.

AG10. An entity's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, an entity will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether it has a right to payment for performance completed to date, an entity shall consider whether it would have an enforceable right to demand or retain payment for performance completed to date if the contract or other binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.

AG11. In some contracts or other binding arrangements, a customer may have a right to terminate the contract or other binding arrangement only at specified times during the life of the contract or other binding arrangement or the customer might not have any right to terminate the contract or other binding arrangement. If a customer acts to terminate a contract or other binding arrangement without having the right to terminate the contract or other binding arrangement at that time (including when a customer fails to perform its obligations as promised), the contract or other binding arrangement (or other laws) might entitle the entity to continue to transfer to the customer the goods or services promised in the contract or other binding arrangement and require the customer to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to payment for performance completed to date because the entity has a right to continue to perform its obligations in accordance with the contract or other binding arrangement and to require the customer to perform its obligations (which include paying the promised consideration).

AG12. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the contractual or other binding arrangement terms as well as any legislation or legal precedent that could supplement or override those contractual or other binding arrangement terms. This would include an assessment of whether:

- (a) Legislation, administrative practice or legal precedent confers upon the entity a right to payment for performance to date even though that right is not specified in the contract or other binding arrangement with the customer;
- (b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar contracts or other binding arrangements have no binding legal effect; or
- (c) An entity's customary business practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment in similar contracts or other binding arrangements, an entity would continue to have a right to payment to date if, in the contract or other binding arrangement with the customer, its right to payment for performance to date remains enforceable.

AG13. The payment schedule specified in a contract or other binding arrangement does not necessarily indicate whether an entity has an enforceable right to payment for performance completed to date. Although the payment schedule in a contract or other binding arrangement specifies the timing and amount of consideration that is payable by a customer, the payment schedule might not necessarily provide evidence of the entity's right to payment for performance completed to date. This is because, for example, the contract or other binding arrangement could specify that the consideration received from the customer is refundable for reasons other than the entity failing to perform as promised in the contract or other binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation

AG14. Methods that can be used to measure an entity's progress towards complete satisfaction of a performance obligation satisfied over time in accordance with paragraphs 36 – 38 include the following:

- (a) Output methods (see paragraphs AG15 – AG17); and
- (b) Input methods (see paragraphs AG18 – AG19).

Output Methods

AG15. Output methods recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract or other binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the customer. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

AG16. As a practical expedient, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed

to date (for example, a service contract or other binding arrangement in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

AG17. 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

AG18. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognize revenue on a straight-line basis.

AG19. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a customer. 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 40, do not depict the entity's performance in transferring control of goods or services to the customer. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

- (a) When a cost incurred does not contribute to an entity's progress in satisfying the performance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the contract or other binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the performance obligation).
- (b) When a cost incurred is not proportionate to the entity's progress in satisfying the performance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a performance obligation if the entity expects at contract or other binding arrangement inception that all of the following conditions would be met:
 - (i) The good is not distinct;
 - (ii) The customer is expected to obtain control of the good significantly before receiving services related to the good;
 - (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and
 - (iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG34 – AG42).

Sale with a Right of Return

AG20. In some contracts or other binding arrangements, an entity transfers control of a product to a customer and also grants the customer 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.

AG21. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

- (a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned);
- (b) A refund liability; and
- (c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

AG22. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance obligation in addition to the obligation to provide a refund.

AG23. An entity shall apply the requirements in paragraphs 48 – 73 (including the requirements for constraining estimates of variable consideration in paragraphs 57 – 59) to determine the amount of consideration to which the entity expects to be entitled (i.e., excluding the products expected to be returned). For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue when it transfers products to customers but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognized.

AG24. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue).

AG25. An asset recognized for an entity's right to recover products from a customer 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.

AG26. Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this [draft] Standard.

AG27. Contracts or other binding arrangements in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG28 – AG33.

Warranties

AG28. It is common for an entity to provide (in accordance with the contract or other binding arrangement, the law or the entity's customary business 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 industries and contracts or other binding arrangements. Some warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG29. If a customer 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 customer in addition to the product that has the functionality described in the contract or other binding arrangement. In those circumstances, an entity shall account for the promised warranty as a performance obligation in accordance with paragraphs 23 – 31 and allocate a portion of the transaction price to that performance obligation in accordance with paragraphs 74 – 87.

AG30. If a customer does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG31. In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

- (a) Whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance obligation because such requirements typically exist to protect customers from the risk of purchasing defective products.
- (b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.
- (c) The nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation.

AG32. If a warranty, or a part of a warranty, provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a performance obligation. Therefore, an entity shall allocate the transaction price to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

AG33. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer might sell products 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 consumer using a product for its intended purpose. Similarly, an entity's promise to indemnify the customer for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a performance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

Principal versus Agent Considerations

AG34. When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 28 – 31). If a contract or other binding arrangement with a customer 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.

AG35. To determine the nature of its promise (as described in paragraph AG34), the entity shall:

- (a) Identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 27)); and
- (b) Assess whether it controls (as described in paragraph 34) each specified good or service before that good or service is transferred to the customer.

AG36. An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. 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 customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

AG37. When another party is involved in providing goods or services to a customer, 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 customer.
- (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 customer 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 customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 30(a)) provided by another party into the specified good or service for which the customer has contracted or entered into other binding arrangements, the entity controls the specified good or service before that good or service is transferred to the customer. 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.

AG38. When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG39. An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG40. Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph AG36) include, but are not limited to, the following:

- (a) The entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract or other binding arrangement with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the good or service before it is transferred to the customer.
- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer 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 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 customers.

AG41. The indicators in paragraph AG40 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 contract or other binding arrangement. In addition, different indicators may provide more persuasive evidence in different contracts or other binding arrangements.

AG42. If another entity assumes the entity's performance obligations and contractual or other binding arrangement rights in the contract or other binding arrangement so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that performance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a performance obligation to obtain a contract or other binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Customer Options for Additional Goods or Services

AG43. Customer options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, customer award credits (or points), contract or other binding arrangement renewal options or other discounts on future goods or services.

AG44. If, in a contract or other binding arrangement, an entity grants a customer the option to acquire additional goods or services, that option gives rise to a performance obligation in the contract or other binding arrangement only if the option provides a material right to the customer that it would not receive without entering into that contract or other 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 customer in that geographical area or market). If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.

AG45. If a customer has the option to acquire an additional good or service at a price that would reflect the stand-alone selling price for that good or service, that option does not provide the customer with a material right even if the option can be exercised only by entering into a previous contract or other binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this [draft] Standard only when the customer exercises the option to purchase the additional goods or services.

AG46. Paragraph 75 requires an entity to allocate the transaction price to performance obligations on a relative stand-alone selling price basis. If the stand-alone selling price for a customer'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 customer would obtain when exercising the option, adjusted for both of the following:

- (a) Any discount that the customer could receive without exercising the option; and
- (b) The likelihood that the option will be exercised.

AG47. If a customer 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 contract or other binding arrangement and are provided in accordance with the terms of the original contract or other binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone selling price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for contract or other binding arrangement renewals.

Customers' Unexercised Rights

AG48. In accordance with paragraph 107, upon receipt of a prepayment from a customer, an entity shall recognize a binding arrangement liability or contract liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that binding arrangement liability or contract liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.

AG49. A customer's non-refundable prepayment to an entity gives the customer a right to receive a good or service in the future (and obliges the entity to stand ready to transfer a good or service).

However, customers may not exercise all of their contractual or other binding arrangement rights. Those unexercised rights are often referred to as breakage.

AG50. If an entity expects to be entitled to a breakage amount in a binding arrangement liability or contract liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the customer 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 57 – 59 on constraining estimates of variable consideration.

AG51. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a customer'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)

AG52. In some contracts or other binding arrangements, an entity charges a customer a non-refundable upfront fee at or near contract or other binding arrangement inception. Examples include joining fees in health club membership contracts or other binding arrangements, activation fees in telecommunication contracts or other binding arrangements, setup fees in some services contracts or other binding arrangements and initial fees in some supply contracts or other binding arrangements.

AG53. To identify performance obligations in such contracts or other 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 contract or other binding arrangement inception to fulfil the contract or other binding arrangement, that activity does not result in the transfer of a promised good or service to the customer (see paragraph 26). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual other binding arrangement period if the entity grants the customer the option to renew the contract or other binding arrangement and that option provides the customer with a material right as described in paragraph AG44.

AG54. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 23 – 31.

AG55. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a contract or other binding arrangement (or other administrative tasks as described in paragraph 26). If those setup activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG19. That is because the costs of setup activities do not depict the transfer of services to the customer. The entity shall assess whether costs incurred in setting up a contract or other binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 96.

Licensing

AG56. A license establishes a customer's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

- (a) Software and technology;
- (b) Motion pictures, music and other forms of media and entertainment;
- (c) Franchises; and
- (d) Patents, trademarks and copyrights.

AG57. In addition to a promise to grant a license (or licenses) to a customer, an entity may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or other binding arrangement or implied by an entity's customary business practices, published policies or specific statements (see paragraph 24). As with other types of contracts or other binding arrangements, when a contract or other binding arrangement with a customer includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 23 – 31 to identify each of the performance obligations in the contract or other binding arrangement.

AG58. If the promise to grant a license is not distinct from other promised goods or services in the contract or other binding arrangement in accordance with paragraphs 27 – 31, an entity shall account for the promise to grant a license and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the contract or other binding arrangement include the following:

- (a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) A license that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the customer to access content).

AG59. If the license is not distinct, an entity shall apply paragraphs 32 – 39 to determine whether the performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

AG60. If the promise to grant the license is distinct from the other promised goods or services in the contract or other binding arrangement and, therefore, the promise to grant the license is a separate performance obligation, an entity shall determine whether the license transfers to a customer either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a customer is to provide the customer with either:

- (a) A right to access the entity's intellectual property as it exists throughout the license period;
or
- (b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Entity's Promise

AG61. The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

- (a) The contract or other binding arrangement requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs AG62 and AG63);
- (b) The rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph AG61(a); and
- (c) Those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 26).

AG62. Factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business 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 customer related to the intellectual property to which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

AG63. An entity's activities significantly affect the intellectual property to which the customer 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 customer to obtain benefit or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

Accordingly, if the intellectual property to which the customer has rights has significant stand-alone functionality, a substantial portion of the benefit or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit 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).

AG64. If the criteria in paragraph AG61 are met, an entity shall account for the promise to grant a license as a performance obligation satisfied over time because the customer will simultaneously receive and consume the benefit or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 36(a)). An entity shall apply paragraphs 40 – 46 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

AG65. If the criteria in paragraph AG61 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 39 to

determine the point in time at which the license transfers to the customer. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit or derive service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

AG66. An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

- (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its performance obligation at a point in time or over time.
- (b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the license transferred meets the specifications of the license promised in the contract or other binding arrangement.

Sales-Based or Usage-Based Royalties

AG67. Notwithstanding the requirements in paragraphs 57 – 60, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

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

AG68. The requirement for a sales-based or usage-based royalty in paragraph AG67 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG69. When the requirement in paragraph AG68 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG67. When the requirement in paragraph AG68 is not met, the requirements on variable consideration in paragraphs 51 – 60 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG70. [To be discussed at a later meeting].

AG71. [To be discussed at a later meeting].

A Forward or a Call Option

AG72. [To be discussed at a later meeting].

AG2-AG73. [To be discussed at a later meeting].

AG3-AG74. [To be discussed at a later meeting].

AG75. [To be discussed at a later meeting].

A Put Option

AG76. [To be discussed at a later meeting].

AG77. [To be discussed at a later meeting].

AG78. [To be discussed at a later meeting].

AG79. [To be discussed at a later meeting].

AG80. [To be discussed at a later meeting].

AG81. [To be discussed at a later meeting].

AG82. [To be discussed at a later meeting].

Consignment Arrangements

AG83. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end customers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG84. 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 customer 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

AG85. A bill-and-hold arrangement is a contract or other binding arrangement under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. For example, a customer may request an entity to enter into such a contract or other binding arrangement because of the customer's lack of available space for the product or because of delays in the customer's production schedules.

AG86. An entity shall determine when it has satisfied its performance obligation to transfer a product by evaluating when a customer obtains control of that product (see paragraph 39). For some contracts or other binding arrangement, control is transferred either when the product is delivered to the customer's site or when the product is shipped, depending on the terms of the contract or other binding arrangement (including delivery and shipping terms). However, for some contracts or other binding arrangement, a customer may obtain control of a product even though that product remains in an entity's physical possession. In that case, the customer has the ability to direct the use of, and obtain substantially all of the remaining 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 customer over the customer's asset.

AG87. In addition to applying the requirements in paragraph 39, for a customer 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 customer has requested the arrangement);
- (b) The product must be identified separately as belonging to the customer;
- (c) The product currently must be ready for physical transfer to the customer; and
- (d) The entity cannot have the ability to use the product or to direct it to another customer.

AG88. If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 23 – 31 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 74 – 87.

Customer Acceptance

AG89. In accordance with paragraph 39(e), a customer's acceptance of an asset may indicate that the customer has obtained control of the asset. Customer acceptance clauses allow a customer to cancel a contract or other 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 a customer obtains control of a good or service.

AG90. If an entity can objectively determine that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract or other binding arrangement, then customer acceptance is a formality that would not affect the entity's determination of when the customer has obtained control of the good or service. For example, if the customer 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 the customer's acceptance. The entity's experience with contracts or other binding arrangement for similar goods or services may provide evidence that a good or service provided to the customer is in accordance with the agreed-upon specifications in the contract or other binding arrangement. If revenue is recognized before customer acceptance, the entity still must consider whether there are any remaining performance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

AG91. However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract or other binding arrangement, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance. That is because in that circumstance the entity cannot determine that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the good or service.

AG92. If an entity delivers products to a customer for trial or evaluation purposes and the customer is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the customer until either the customer accepts the product or the trial period lapses.

Disclosure of Disaggregated Revenue

AG93. Paragraph 115 requires an entity to disaggregate revenue from contracts or other binding arrangements with customers 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 contracts or other binding arrangements with customers. Some entities may need to use more than one type of category to meet the objective in paragraph 115 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG94. 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 earnings releases, annual reports or investor presentations);
- (b) Information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments; and
- (c) Other information that is similar to the types of information identified in paragraph AG94(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.

AG95. Examples of categories that might be appropriate include, but are not limited to, all of the following:

- (a) Type of good or service (for example, major product lines);
- (b) Geographical region (for example, country or region);
- (c) Market or type of customer (for example, government and non-government customers);
- (d) Type of contract or other binding arrangement (for example, fixed-price and time-and-materials contracts or other binding arrangements);
- (e) Contract or other binding arrangement duration (for example, short-term and long-term contracts or other binding arrangements);
- (f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and
- (g) Sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

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(Back cover)

Agenda Item

9.2.2

Revenue - Approach to IFRS 15: Amendments to Other IPSAS

Questions

1. The IPSASB is asked to review and approve the proposed Amendments to Other IPSAS following the decision by the IPSASB to replace IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts* with an IPSAS that is primarily based on the IASB pronouncement from IFRS 15, *Revenue from Contracts with Customers*.

Detail

2. Staff have reviewed the amendments to other IFRS made by IFRS 15, and considered whether equivalent amendments to other IPSAS are required.
3. Table 1 below summarizes the amendments made by staff. The detailed amendments are included in [Agenda Item 9.3](#) to this Agenda Item. Staff note that additional amendments to other IPSAS may be required once the IPSASB has agreed the way forward with the PSPOA. These will be brought to a later meeting for the IPSASB's consideration.

Table 1: Amendments to Other IPSAS based on the IASB's pronouncement from IFRS 15

Proposed Amendment	Rationale
Replace the reference to IPSAS 9 and IPSAS 11 in various IPSAS with a reference to [draft] ED [XX], <i>Revenue from Contracts or Other Binding Arrangements with Customers Transactions with Performance Obligations</i> .	IPSAS 9 and IPSAS 11 will be superseded by the new Standard, therefore references to these Standards need to be replaced with references to the new Standards.
Update IPSAS 1 to refer to revenue as the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services.	In discussing the circumstances in which revenue and expense may be offset, IPSAS 1 relies on the definition of revenue in IPSAS 9. As that Standard will be superseded, IPSAS 1 will need to reflect the definition of revenue in the proposed new Standard.
Replace the term "Proceeds" with "Amount of Consideration".	IPSAS 1, IPSAS 16 and IPSAS 17 refer to proceeds of sales. Revenue from such transactions is covered by the proposed new Standard, and the use of "amount of consideration" will ensure consistency with that Standard.
Staff recommends the removal of the term "Ordinary".	Staff note that IPSAS 1, IPSAS 17 and IPSAS 31 maintain the use of 'ordinary activities' to identify when assets should be accounted for as inventory. Staff is seeking Board views on this issue.

Proposed Amendment	Rationale
<p>Replace the term “Revenue from exchange transactions” with “Revenue from transactions with performance obligations”.</p>	<p>IPSAS 1 currently requires revenue from exchange transactions to be presented separately from other revenue. If the IPSASB agrees to develop a single standard dealing with revenue from transactions with performance obligations, entities will no longer need to separately identify revenue from exchange transactions. Updating the presentation requirements in IPSAS 1 to match the classification of revenue transactions will avoid placing additional burdens on preparers. Other IPSAS will require similar amendments to maintain consistency with the proposed new Standard.</p>
<p>Remove the references to inventories including the costs of the service for which the entity has not yet recognized the related revenue in IPSAS 12.</p>	<p>IPSAS 12 currently treats the costs of services for which an entity has not yet recognized the related revenue as inventory. Under the proposed new Standard, such amounts will form part of the contract asset/binding arrangement asset. The references in IPSAS 12 therefore need to be removed and preparers directed to the requirements in the proposed new Standard.</p>
<p>Update IPSAS 16, IPSAS 17 and IPSAS 31 to reflect that the date of disposal is the date that recipient obtains control.</p>	<p>IPSAS 16, IPSAS 17 and IPSAS 31 currently refer to the guidance in IPSAS 9 in determining the date of disposal of an asset. As IPSAS 9 will be superseded, these Standards will need to reflect the revised guidance in the proposed new Standard.</p>
<p>Update IPSAS 16, IPSAS 17 and IPSAS 31 to refer to the amount of consideration on derecognition is determined in accordance with requirements for determining the transaction price.</p>	<p>IPSAS 16, IPSAS 17 and IPSAS 31 currently refer to the consideration receivable on disposal as its fair value, and refer to the additional guidance in IPSAS 9. As IPSAS 9 will be superseded, these Standards will need to reflect the revised guidance in the proposed new Standard.</p>

Proposed Amendment	Rationale
Update IPSAS 41 to reflect the requirements of the proposed new Standard.	<p>IFRS 9 refers to the principles in IFRS 15 for some transactions (for example, the simplified requirements for trade receivables. Because there is currently no equivalent IPSAS, IPSAS 41 incorporated the principles without referring to another IPSAS. The changes proposed will ensure greater consistency.</p> <p>Because of the complexity of the interactions between the two standards, staff propose liaising with the Financial Instruments Task Force in finalizing the amendments.</p>

Decisions required

4. The IPSASB is asked whether it supports the staff proposals in respect of the Amendments to Other IPSAS; and if not, to indicate what changes are required.

Services in-Kind**Question**

1. The IPSASB is asked to consider the drafting and placement of that drafting for encouragements for entities to recognize and/or disclose services in-kind received in an updated IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*,

Background

2. At the March 2018 IPSASB meeting staff provided the Board with the feedback to Specific Matter for Comment (SMC) 6 in Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* which called for respondent views on accounting for services in-Kind the analysis revealed no clear preference for the options provided, which were:
 - (a) Retain the existing requirements;
 - (b) Modify the requirement to require services in-kind that meet the definition of an asset and can be measured reliably to be recognized in the financial statements; and
 - (c) An alternative approach.
3. It was also noted that some of the comments made were not clear, therefore the Board instructed staff to re-examine the comment letters to ascertain if, after further analysis, there was clear preference for accounting for services in-kind.
4. This further analysis was presented at the June 2018 meeting but did not change the outcome. This June 2018 paper also provided results of high-level desk research on both accounting requirements and the reporting of services in-kind by not-for-profit organizations, in a number of jurisdictions. This limited research revealed that none of these organizations required the recognition of services in-kind.
5. Therefore, the Board decided not to change the current requirement or accounting for services in-kind, which allows but does not require services in-kind to be recognized as revenue and as an asset. But rather staff should provide drafting to encourage entities to provide disclosure of qualitative information about volunteer services received.

Detail

6. Staff have amended the existing in IPSAS 23 to strengthen the encouragement to entities to recognize services in-kind if they are integral to the entity.

The revised drafting for services in-kind, shown in mark-up, is attached in Appendix A.

Decision for the Board

7. Does the IPSASB agree with the re-drafted requirements for accounting for services in-kind?

Appendix A to Agenda Item 9.2.3

Services In-kind

98. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

~~98-99.~~ Although not recognition of services in-kind is not required this Standard strongly encourage the recognition of services in-kind received particularly if they are integral [material] to an entity's operations [functioning].

~~99-100.~~ Services in-kind are services provided by individuals to public sector entities ~~in a non-exchange transaction for no consideration~~. ~~These Some~~ services in-kind meet the definition of an asset because the entity controls ~~a-the~~ 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 recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

~~100-101.~~ Public sector 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 other governments or international organizations;
- (b) Persons convicted of offenses may be required to perform community service for a public sector entity;
- (c) Public hospitals may receive the services of volunteers;
- (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and
- (e) Local governments may receive the services of volunteer fire fighters.

~~101-102.~~ 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 101, 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.

~~102-103.~~ 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 108, however, encourages the disclosure of [qualitative information on](#) the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

~~103-104.~~ 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 recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Disclosures

108. Entities are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, including those not recognized particularly if those services in-kind are to integral [material] to the operations [functioning] 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.
115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the 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.

Other Compulsory Contributions and Levies**Questions**

8. The IPSASB is asked to provide guidance to staff on the additional requirements to be included in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in respect of other compulsory contributions and levies.

Detail

9. In developing Exposure Draft (ED) 63, *Social Benefits*, the IPSASB agreed that social contributions should not be included in the ED, but should instead be accounted for in accordance with IPSAS 23. The only exception to this is where an entity uses the insurance approach included in ED 63.
10. ED 63 included amendments to IPSAS 23 to clarify that social contributions should be accounted for using the principles in IPSAS 23, but did not provide any more specific guidance on how to account for social contributions. The IPSASB agreed to develop more specific guidance as part of the *Revenue* project.
11. At its June 2018 meeting, the IPSASB considered an Issues Paper and draft sections of an Exposure Draft (ED) proposing guidance on accounting for social contributions in line with the requirements for taxation revenue.
12. The IPSASB agreed that it was appropriate to account for social contributions in line with the requirements for taxation revenue. The IPSASB noted that some other government programs that do not meet the revised definition of a social benefit also involve compulsory contributions or levies. The IPSASB agreed that the guidance should be extended to include these transactions, and that the guidance should therefore refer to “other compulsory contributions and levies” generically.
13. The IPSASB reviewed the draft sections of the ED, and instructed staff to simplify the wording by incorporating the new guidance into the paragraphs dealing with taxation revenue, rather than including additional paragraphs that in substance duplicated the existing paragraphs.
14. Staff has reflected the IPSASB’s decisions and instructions in the draft sections of the ED provided at Appendix A to this Agenda Item. Staff notes that, once agreed by the IPSASB, the guidance will be incorporated into a larger ED that proposes additional amendments to IPSAS 23. Some of these additional amendments are discussed elsewhere on this Agenda.
15. The text included in the Basis for Conclusions section of the draft ED incorporates the consequential amendments included in the draft IPSAS 42, *Social Benefits*, included in Agenda Item 5 elsewhere on this Agenda.

Decisions required

16. The IPSASB is asked to provide any comments on the draft guidance for other compulsory contributions and levies provided at Appendix A to this Agenda Item.

Appendix A to Agenda Item 9.2.4

Draft Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers)

Paragraphs 7, 59–64, 66–70, 106, 107 and 113 are amended and paragraphs 65A and 124G are added. New text is underlined and deleted text is struck through. Paragraph 65 is not amended but is provided for ease of reference.

...

Definitions

...

7. The following terms are used in this Standard with the meanings specified:

...

Other compulsory contributions and levies are contributions or levies, paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

...

Taxes and Other Compulsory Contributions and Levies

59. An entity shall recognize an asset in respect of taxes and other compulsory contributions and levies when the taxable event or equivalent event for other compulsory contributions and levies occurs and the asset recognition criteria are met.
60. Resources arising from taxes and other compulsory contributions and levies satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event or equivalent event for other compulsory contributions and levies) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes and other compulsory contributions and levies satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event or equivalent event for other compulsory contributions and levies by the taxpayer (or equivalent person or entity for other compulsory contributions and levies).
61. Taxation revenue and revenue from other compulsory contributions and levies arises only for the government that imposes the tax or other compulsory contribution or levy, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state

governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state ~~taxation~~-agency collects income tax and other compulsory contributions and levies for the state government and several city governments, it does not recognize revenue in respect of the taxes and other compulsory contributions and levies collected – rather, the individual governments that impose the taxes and other compulsory contributions and levies recognize assets and revenue in respect of the taxes and other compulsory contributions and levies.

62. Taxes and other compulsory contributions and levies do not satisfy the definition of contributions from owners, because the payment of taxes and other compulsory contributions and levies 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.
63. Taxes and other compulsory contributions and levies satisfy the definition of non-exchange transaction because the taxpayer (or equivalent person or entity for other compulsory contributions and levies) transfers resources to the government, without receiving approximately equal value directly in exchange. While the taxpayer (or equivalent person or entity for other compulsory contributions and levies) may benefit from a range of social policies established by the government, these are not provided directly in exchange as consideration for the payment of taxes and other compulsory contributions and levies.
64. As noted in paragraph 52, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability, because the specific purposes amount to restrictions not conditions. Similarly, other compulsory contributions and levies are not expected to give rise to a liability, because the requirements that revenue is used in the provision of specified government programs amount to restrictions not conditions.

The Taxable Event or equivalent event for other compulsory contributions and levies

65. Similar types of taxes are levied in many jurisdictions. The reporting entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:
- (a) Income tax is the earning of assessable income during the taxation period by the taxpayer;
 - (b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;
 - (c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
 - (d) Customs duty is the movement of dutiable goods or services across the customs boundary;
 - (e) Death duty is the death of a person owning taxable property; and
 - (f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

65A. Similar types of other compulsory contributions and levies occur in many jurisdictions. The reporting entity analyzes the law 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

66. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 59, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the taxable event or equivalent event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes or equivalent event for other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied (see paragraph 59), 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 recognized until the taxable event or equivalent event for other compulsory contributions and levies occurs. When the taxable event or equivalent event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions and Other Compulsory Contribution and Levy Transactions

67. Paragraph 42 requires that assets arising from taxation transactions and other compulsory contribution and levy transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions and other compulsory contribution and levy transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions and other compulsory contribution and levy transactions that conform with the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions and other compulsory contribution and levy transactions will flow to the government, and the fair value of the resultant assets.

68. Where there is a separation between the timing of the taxable event or equivalent event for other compulsory contributions and levies and collection of taxes, contributions or levies, public sector entities may reliably measure assets arising from taxation transactions and other compulsory contribution and levy 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 (or equivalent person or entity for other compulsory contributions and levies), declarations made by taxpayers (or equivalent person or entity

for other compulsory contributions and levies), 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 allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;
 - (b) Taxpayers (or equivalent person or entity for other compulsory contributions and levies) failing to file returns on a timely basis;
 - (c) Valuing non-monetary assets for tax assessment purposes;
 - (d) Complexities in tax law 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 (or laws 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 permitting taxpayers to defer payment of some taxes; and
 - (g) A variety of circumstances particular to individual taxes and jurisdictions.
69. Measuring assets and revenue arising from taxation transactions and other compulsory contribution and levy transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers (or equivalent person or entity for other compulsory contributions and levies) in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
70. In some cases, the assets arising from taxation transactions and other compulsory contribution and levy transactions and the related revenue cannot be reliably measured until sometime after the taxable event or equivalent event for other compulsory contributions and levies occurs. This may occur if a tax, contribution or levy base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event or equivalent event for other compulsory contributions and levies. However, there are exceptional circumstances when several reporting periods will pass before a taxable event or equivalent event for other compulsory contributions and levies results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently the recognition criteria may not be satisfied until payment is received or receivable.

....

Disclosures

106. **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 non-exchange transactions recognized during the period by major classes showing separately:**

- (i) **Taxes, showing separately major classes of taxes;**
- (iA) **Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and**
- (ii) **Transfers, showing separately major classes of transfer revenue.**

...

107. **An entity shall disclose in the notes to the general purpose financial statements:**

...

- (c) **For major classes of taxation revenue and revenue from and 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; and**
- (d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.**

...

113. As noted in paragraphs 68 and 75F, 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 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 recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs. These disclosures assist users to make informed judgments about the entity's future revenue and net asset position.

...

Effective Date

...

124G. Paragraphs 7, 59–64, 66–70, 106, 107 and 113 were amended, and paragraph 65A was added, by [draft] IPSAS [X] (ED XX), [Amendments to IPSAS 23], issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

...

Compulsory Contributions and Levies to Social Security and Other Schemes

BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. At the time that IPSAS 23 was developed, the IPSASB considered that whether or not compulsory contributions to social security schemes give rise to exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

BC26A. The IPSASB reconsidered this issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to social benefit schemes accounted for under the insurance approach are not accounted for as revenue under this Standard.

BC26B. In developing IPSAS 42, the IPSASB also noted that some government programs that did not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this Standard by [draft] IPSAS [X] (ED xx), [Amendments to IPSAS 23].

Draft Amendments to Other IPSAS (IFRS 15 Convergence Project)

Amendments to IPSAS 1, *Presentation of Financial Statements*

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

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Overall Considerations

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Offsetting

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50. ~~IPSAS 9, *Revenue from Exchange Transactions*, defines revenue and [Draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*⁸ requires it~~ an entity to be measured revenue from contracts or other binding arrangements with customers at the fair value of consideration received or receivable, taking into account the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognized reflects any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:
- (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the ~~proceeds~~ amount of consideration on disposal the carrying amount of the asset and related selling expenses; and
 - (b) ...

...

Effective Date

...

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

...

⁸ In Agenda Item 9.2.1, staff have recommended that the title *Revenue from Transactions with Performance Obligations* be adopted for the ED. This title is used throughout this Agenda Item. Should the IPSASB adopt a different title, this will be reflected in the amendments to other IPSAS.

Implementation Guidance

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

Illustrative Financial Statement Structure

...

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

...

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

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

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

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

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

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

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

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

...

Amendments to IPSAS 12, *Inventories*

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

...

Scope

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

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

(b) ...

...

Definitions

...

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation

to schools. ~~In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue. (guidance on recognition of revenue can be found in IPSAS 9, Revenue from Exchange Transactions.)~~ Costs incurred to fulfil a contract or other binding arrangement with a customer that do not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with [draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*.

...

Net Realizable Value

...

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

...

Disclosure

...

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

...

Effective Date

...

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

...

Amendments to IPSAS 16, *Investment Property*

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

...

Definitions

...

Investment Property

...

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

(a) ...

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

(c) ...

...

Disposals

...

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

...

81. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, using the effective interest method determined in accordance with the requirements for determining the transaction price in paragraphs 48–73 of [draft] IPSAS [XX] (ED X). Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [XX] (ED X).~~

...

⁹ ED 64, *Leases* has proposed additional amendment to this paragraph.

Effective Date

...

1011. Paragraphs 13, 78, and 81 were amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

...

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

Paragraphs 83A, 84, and 87 are amended and paragraph 108P is added. New text is underlined and deleted text is struck through.

...

Derecognition

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- 83A. However, an entity that, in the course of its ~~ordinary~~ activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds amount of consideration from the sale/disposal of such assets shall be recognized as revenue in accordance with IPSAS 9, Revenue from Exchange Transactions[draft] IPSAS [XX] (ED X), Revenue from Transactions with Performance Obligations.
84. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). ~~In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods of~~ property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IPSAS [XX] (ED X). IPSAS 13[draft] IPSAS [XX] (ED X) (ED 64), Leases applies to disposal by a sale and leaseback.
- ...
87. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction price in paragraphs 48–73 of [draft] IPSAS [XX] (ED X). Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [XX] (ED X).~~

...

Effective Date

...

108P. Paragraphs 83A, 84 and 87 were amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year].
An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

...

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 39 is amended and paragraph 77F is added. New text is underlined and deleted text is struck through.

...

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

...

Segment Assets, Liabilities, Revenue, and Expense

...

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

...

Effective Date

...

77F. Paragraph 39 was amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

...

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

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

...

Scope

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Other Exclusions from the Scope of the Standard

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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:

(c) ~~Construction contracts (see IPSAS 11, *Construction Contracts*); and~~

(d) ...

...

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*, identifies the circumstances in which revenue from exchange transactions is recognized, and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of ~~IPSAS 9~~ [draft] IPSAS [XX] (ED X).

...

Effective Date

...

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

...

Implementation Guidance

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

...

Recognition

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A Single Guarantee

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Analysis

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Conclusion

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

...

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

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

...

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except for:
 - (a) ...
 - ~~(b) Assets arising from construction contracts (see IPSAS 11, Construction Contracts); [Deleted]~~
 - (c) ...

...

Effective Date

...

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

...

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 5, 25, 40 and 81 are amended and paragraph 124I is added. New text is underlined and deleted text is struck through.

...

Scope

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5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from ~~exchange transactions~~ with performance obligations is addressed in ~~IPSAS 9, Revenue from Exchange Transactions~~ [draft] IPSAS [XX] (ED X), Revenue from Transactions with Performance Obligations. While revenues received by public sector entities arise from both exchange and non-exchange transactions, the majority of revenue of governments and other public sector entities is typically derived from non-exchange transactions, such as:

...

Definitions

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Substance over Form

...

25. However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard, advance receipt refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an ~~exchange transaction~~ with a performance obligation, they will be dealt with in accordance with ~~IPSAS 9~~[draft] IPSAS [XX] (ED X).

...

Recognition of Assets

...

Exchange and Non-Exchange Components of a Transaction

...

40. ~~Paragraph 11 of IPSAS 9, defines exchange transactions and non-exchange transactions, and paragraph 10 of this Standard notes that a transaction may include two components, an exchange component and a non-exchange component.~~

...

Transfers

...

81. Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange. If an agreement stipulates that the recipient entity is to provide approximately equal value in exchange, the agreement is not a transfer agreement, but a contract or other binding arrangement for an ~~exchange transaction~~ with performance obligation that should be accounted for under ~~IPSAS 9~~[draft] IPSAS [XX] (ED X).

...

Effective Date

...

124l. Paragraphs 5, 25, 40 and 81 were amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year].
An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 23.

Measurement, Recognition, and Disclosure of Revenue from Non-Exchange Transactions

...

Research Grant (in Substance ~~Exchange~~ Transaction with a Performance Obligations) (paragraph 8)

...

IG27. This is an ~~exchange~~ transaction with a performance obligation. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit or service potential) to profit from the research results. ~~IPSAS 9~~[draft] IPSAS [XX] (ED X), Revenue from Transactions with Performance Obligations and IPSAS 31, *Intangible Assets* apply to this transaction.¹⁰

...

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

...

Illustrative Examples

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

...

¹⁰ This proposed amendment is subject to the IPSASB's discussions on grants at later meetings.

Additional Column Approach

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

Both Annual Budget And Financial Statements Adopt Accrual Basis

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

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

...

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

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

...

Scope

...

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

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

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

...

Effective Date

...

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

...

Amendments to IPSAS 31, *Intangible Assets*

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

...

Scope

...

- 6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
 - (a) Intangible assets held by an entity for sale in the ordinary course of operations (see ~~IPSAS 11, *Construction Contracts*, and~~ IPSAS 12, *Inventories*);
 - ...
 - (g) Assets arising from contracts or other binding arrangements that are recognized in accordance with [draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*.

...

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 the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods~~an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance

obligation is satisfied in [draft] IPSAS [XX] (ED X). ~~IPSAS 13~~[draft] IPSAS [XX] (ED X) (ED 64), Leases applies to disposal by a sale and leaseback.¹¹

...

115. The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction price in paragraphs 48-73 of [draft] IPSAS [XX] (ED X). Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [XX] (ED X).

...

Effective Date

...

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

...

Amendments to IPSAS 32, *Service Concession Arrangements*

Paragraph 30 is amended and paragraph 36F 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 ~~IPSAS 9, Revenue from Exchange Transactions~~[draft] IPSAS [XX] (ED X), Revenue from Transactions with Performance Obligations.

...

Effective Date

...

- 36F. Paragraph 30 was amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a

¹¹ ED 64, *Leases* has proposed additional amendment to this paragraph.

period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

....

Appendix B

Application Guidance

This Appendix is an integral part of IPSAS 32.

...

Other Revenues

...

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

...

Basis for Conclusions

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

...

BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions). The IPSASB reconsidered this issue in approving [draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*, and concluded that it was appropriate to retain this guidance.

...

Grant of a Right to the Operator Model

BC40A. In approving [draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*, the IPSASB considered whether any amendment to the grant of a right to the operator model were required. The IPSASB concluded that no amendments were required.

...

Implementation Guidance

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

...

Accounting Framework for Service Concession Arrangements

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

...

WITHIN THE SCOPE OF THE STANDARD	
• ...	
• Grantor recognizes related liability equal to the value of the SCA asset (IPSAS 9 <u>[draft] IPSAS [XX] (ED X)</u> , <i>Revenue from Transactions with Performance Obligations</i> , IPSAS 28 , IPSAS 29 , and IPSAS 30 <u>41</u>)	
• ...	

...

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years		Indefinite (or may be limited by binding arrangement or license)	
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 <u>[draft] IPSAS [XX] (ED X)</u> (revenue recognition)	

Amendments to IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASS)*

Paragraph 41 is amended and paragraph 154G is added. New text is underlined and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

...

41. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of ~~IPSAS 9, Revenue from Exchange Transactions~~[draft] IPSAS [XX] (ED X), *Revenue from Transactions with Performance Obligations*, or other receivables settled in cash or another financial asset in terms of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

...

Effective Date

...

- 154G. Paragraph 41 was amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

IPSAS 9, Revenue from Exchange Transactions[draft] **IPSAS [XX] (ED X), Revenue from Transactions with Performance Obligations**

- IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) (for example, the proceeds of a sale that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in ~~IPSAS 9~~[draft] IPSAS [XX] are met.

...

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

- IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
...

Revenue (Draft Amendments to Other IPSAS)
IPSASB Meeting (September 2018)

IPSAS 9, <u>Revenue from Exchange Transactions</u> [draft] IPSAS [XX] (ED X), <u>Revenue from Transactions with Performance Obligations</u>	√				√ To extent that 3 year relief period was adopted for assets and/or liabilities			
...
IPSAS 11, <u>Construction Contracts</u> [draft] IPSAS [XX] (ED X), <u>Revenue from Transactions with Performance Obligations</u>	√							
...

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

...

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
•
IPSAS 9 [draft] IPSAS [XX] (ED X) • Relief for recognition and/or measurement of revenue related to adoption of three year relief period for recognition and/or measurement of financial instruments			√
•

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 115 is amended and paragraph 126D is added. New text is underlined and deleted text is struck through.

...

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

...

Subsequent Measurement and Accounting

...

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

- (e) The amount that would be recognized in accordance with IPSAS 19; and
- (f) The amount initially recognized less, if appropriate, the cumulative amortization amount of revenue recognized in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~ the principles of [draft] IPSAS [XX], Revenue from Transactions with Performance Obligations.

This requirement does not apply to contracts accounted for in accordance with IPSAS 41, *Financial Instruments*.

...

Effective Date

...

126D. Paragraph 115 was amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

...

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 3, 45 and 87 are amended and paragraph 156A is added. New text is underlined and deleted text is struck through.

...

Scope

...

18. The impairment requirements of this Standard shall be applied to those rights arising from ~~IPSAS 9, Revenue from Exchange Transactions~~ [draft] IPSAS [XX], Revenue from Transactions with Performance Obligations and IPSAS 23 transactions which give rise to financial instruments for the purposes of recognizing impairment gains or losses.

...

Classification

...

Classification of Financial Liabilities

45. An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:
- (a) ...
 - (c) Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 45(a) or (b) applies) subsequently measure it at the higher of:
 - (i) ...; and
 - (ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of amortization recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [XX].
 - (d) Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:
 - (i) ...; and
 - (ii) The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of amortization recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [XX].
 - (e) ...

...

Measurement

Initial Measurement

...

- 59A. Despite the requirement in paragraph 57, at initial recognition, an entity shall measure short-term receivables at their transaction price (as defined in [draft] IPSAS [XX] (ED X)) if the short-term receivables do not contain a significant financing component in accordance with [draft] IPSAS [XX] (ED X) (or when the entity applies the practical expedient in accordance with paragraph 64 of [draft] IPSAS [XX] (ED X)).
60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term ~~receivables and~~ payables at the original invoice amount if the effect of discounting is immaterial.

...

Impairment

...

Simplified Approach for Receivables

87. Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:

- (a) Receivables that result from exchange transactions that are within the scope of ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) and non-exchange transactions within the scope of IPSAS 23.
- (b) ...

...

Effective Date

...

156A. Paragraphs 3, 45 and 87 were amended by [draft] IPSAS [XX] (ED X) issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [XX] (ED X) at the same time.

Appendix A

Application Guidance

This Appendix is an integral part of, IPSAS 41.

Scope

...

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by retirement benefit plans and royalty agreements based on the volume of sales or service revenues that are accounted for under ~~IPSAS 9, Revenue from Exchange Transactions~~[draft] IPSAS [XX], Revenue from Transactions with Performance Obligations.

...

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

- (a) Although a financial guarantee contract meets the definition of an insurance contract in IFRS 4 if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has

used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

- (i) ...; and
- (ii) The amount initially recognized less, when appropriate, the cumulative amortization recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) (see paragraph 45(c)).

...

- (c) If a financial guarantee contract was issued in connection with the sale of goods, the issuer applies ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) in determining when it recognizes the revenue from the guarantee and from the sale of goods.

...

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with the relevant revenue standard (see ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) and IPSAS 23). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

Continuing Involvement in Transferred Assets

AG34. The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 27.

All Assets

- (a) If a guarantee provided by an entity to pay for default losses on a transferred asset prevents the transferred asset from being derecognized to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially

measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognized in surplus or deficit ~~on a time proportion basis~~ when (or as) the obligation is satisfied (see IPSAS 9 in accordance with the principles of [draft] IPSAS [XX] (ED X)) and the carrying value of the asset is reduced by any loss allowance.

(b) ...

...

Valuing Financial Guarantees Issued Through a Non-Exchange Transaction

...

AG132. In paragraph 9, “financial guarantee contract” is defined as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.” Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, cumulative amortization in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~[draft] IPSAS [XX] (ED X), Revenue from Transactions with Performance Obligations.

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognize the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized, less, when appropriate, cumulative amortization recognized in accordance with ~~IPSAS 9~~[draft] IPSAS [XX] (ED X). Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

...

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) include:

...