

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Washington D.C., USA

**Meeting Date:** March 12 – 15, 2019

**From:** Amon Dhiwayo

## Agenda Item 9

For:

☐ Approval

☒ Discussion

☒ Information

### REVENUE

<b>Project summary</b>	<b>Revenue</b>  The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS.  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> .	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Decisions up to DECEMBER 2018 Meeting</a>	<a href="#">9.1.1</a>
	<a href="#">Instructions up to DECEMBER 2018 Meeting</a>	<a href="#">9.1.2</a>
	<a href="#">Revenue Project Roadmap</a>	<a href="#">9.1.3</a>
<b>Discussion items</b>	<a href="#">Scope</a>	<a href="#">9.2.1</a>
	<a href="#">Definitions</a>	<a href="#">9.2.2</a>
	<a href="#">Step 1: Identifying the Binding Arrangement with a Purchaser</a>	<a href="#">9.2.3</a>
	<a href="#">Other Outstanding Items</a>	<a href="#">9.2.4</a>
	<a href="#">Consequential Amendments to Leases</a>	<a href="#">Appendix A to Agenda 9.2.4</a>
	<a href="#">Project Management Proposal</a>	<a href="#">9.2.5</a>
	<a href="#">Process for the Development of Illustrative Examples</a>	<a href="#">Appendix B to Agenda 9.2.5</a>
	<a href="#">[draft] Exposure Draft (ED) XX, <i>Revenue from Binding Arrangements with Purchasers</i></a>	<a href="#">9.3</a>

### DECISIONS UP TO DECEMBER 2018 MEETING

Date of Decision	Decision
December 2018	The Board decided to approve the scope of the draft Standard.
December 2018	The Board decided to replace the term, “Customer” with the broader term, “Purchaser”.
December 2018	The Board decided to complement the definition of a binding arrangement by specifying criteria that must be met before an entity can apply the revenue recognition model to that binding arrangement.
December 2018	The Board decided to retain the criteria used in IFRS 15 for revenue transactions, which would be within the scope of IFRS 15.
September 2018	The Board decided to accept the proposed “Amendments to Other IPSAS”.
September 2018	The Board decided that legislation and the ability to reduce future funding should be included as potential enforcement mechanisms for the PSPOA.
September 2018	The Board decided to replace “commercial substance” with “economic substance”.
September 2018	The Board decided to remove the term, “ordinary” and explore the scope to identify whether items such as gains on sale of property, plant and equipment, foreign exchange gains, and interest are within the scope of the draft Standard.
September 2018	The Board decided to retain the methods used to estimate stand-alone selling price and add explanatory text, stating that, where appropriate, the Expected Cost plus Margin approach is also applicable to goods and services that are provided on a cost-recovery basis.
September 2018	The Board decided to retain the terms, “Goods and Services”.
September 2018	The Board decided to retain the terms, “Consideration” and “Exchange”.
September 2018	The Board decided to replace the terms, “Contract Asset” and “Contract Liability” with the terms “Binding Arrangement Asset” and “Binding Arrangement Liability”.
September 2018	The Board decided to use the term, “Binding Arrangement”, which will encompass the terms, “Contract” and “Other Binding Arrangements”.
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> .

Date of Decision	Decision
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 <a href="#">Consultation Paper, Accounting for Revenue and Non-Exchange Expenses</a> .

# Agenda Item

## 9.1.2

### INSTRUCTIONS UP TO DECEMBER 2018 MEETING

Meeting	Instruction	Actioned
December 2018	The Board instructed staff to add a specific exclusion for the amount of consideration included in the surplus or deficit arising from the disposal of investment property dealt with in accordance with IPSAS 16, <i>Investment Property</i> , property, plant and equipment dealt with in accordance with IPSAS 17, <i>Property, Plant and Equipment</i> and intangible assets dealt with in accordance with IPSAS 31, <i>Intangible Assets</i> .	Agenda Item <a href="#">9.2.1</a> and Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to replace the example of oil and milk used for non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. (The IPSASB instructed staff to consider using an example that is more suitable for the Public sector).	Agenda Item <a href="#">9.2.1</a> and Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to provide a definition of the term, "Purchaser", which incorporates the term, "Customer" as defined in IFRS 15.	Agenda Item <a href="#">9.2.2</a> and Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to include explanatory text in the Basis for Conclusions of other terms that were considered to replace the term, "Customer".	Agenda Item <a href="#">9.2.2</a> and Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to consider the definition of binding arrangements in the draft Standard.	Agenda Item <a href="#">9.2.2</a> and Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to provide explanatory text in the Application Guidance or Basis for Conclusions for certain criteria that are difficult to meet in the public sector. (For instance, private sector entities generally enter into contracts for which collection of payment is probable. This may not always be the case in the public sector, as entities may enter into contracts in which collection of payment is not probable; for example, where an entity is legally required to supply electricity to customers with high credit risk).	Agenda Item <a href="#">9.2.3</a> and Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>

Meeting	Instruction	Actioned
December 2018	The Board instructed staff to consider whether the title for the draft Standard should be ' <i>Revenue from Binding Arrangements</i> ' bearing in mind the need to fit with / complement the other elements of the Revenue and Non-Exchange Expenses workstreams.	To be addressed in June 2019.
December 2018	The Board instructed staff to relocate text in boxes in the [draft] (ED) included in the Board papers to Application Guidance (for the Public Sector Performance Obligation Approach) or Basis for Conclusions and to consider the overall flow of the text.	Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to provide a complete version of the main ED text for preliminary approval at the March 2019 meeting in order to provide the 'cornerstone' for development of the EDs on Grants and Transfers, and the updated IPSAS 23.	Agenda Item <a href="#">9.3: [draft] Exposure Draft ED( XX), Revenue from Binding Arrangements with Purchasers.</a>
December 2018	The Board instructed staff to develop drafting on how enhanced display and or disclosure could be communicate the intention/expectations for the use of resources.	To be addressed in June 2019
December 2018	The Board instructed staff to develop guidance on when an entity has control of a resource including discussions on: <ul style="list-style-type: none"> <li>• Appropriations</li> <li>• Budgets</li> </ul> Multi-year funding	To be addressed in June 2019
September 2018	The Board instructed staff to provide options for the title of the [draft] Standard and show the benefits and disadvantages of these options.	To be addressed in June 2019.
September 2018	The Board instructed staff to consider the scope of the [draft] Standard and identify whether items such as Dividend Income, Gains on Sale of Property, Plant and Equipment (PPE), Foreign Currency Gains and Interest Income are within the scope.	
September 2018	The Board instructed staff to define the term, "Binding Arrangement", in the main text of the [draft] Standard and include explanatory text for the terms, "Contract" and "Other Binding Arrangements", in the Basis of Conclusions or Application Guidance.	
September 2018	The Board instructed staff to select either the umbrella term that encompasses the term, "Customer", or the use of the term "Customer" as the umbrella term and provide explanatory text in the Application Guidance or Basis of Conclusion.	

Meeting	Instruction	Actioned
September 2018	The Board instructed staff to add explanatory text in the Application Guidance or Basis of Conclusions that the “Expected Cost plus Margin Approach” is also applicable to goods and services that are provided on a cost-recovery basis.	
September 2018	The Board instructed staff to ensure consistency with other IPSAS and determine whether consequential amendments are necessary for the change of “commercial substance” to “economic substance”.	To be discussed at a future meeting.
September 2018	The Board instructed staff to develop guidance on enforceability acknowledging that enforcement mechanisms may be jurisdictionally specific. Further, the guidance should demonstrate how these mechanisms would work.	Agenda Item <a href="#">8.2.1.</a>
September 2018	The Board instructed staff to consider the New Zealand requirements for providing qualitative disclosures for entities that are reliant on services in-kind for their operations.	To be discussed at a future meeting.
September 2018	The Board instructed staff to redraft the section to explain the principles, using a generic term; which will avoid multiple references to “taxes and other compulsory contributions and levies” and prevent confusion over whether transactions are taxes or levies.	To be discussed at a future meeting.
September 2018	The Board instructed staff to consider the Government Finance Statistics definitions of taxation and levies.	To be discussed at a future meeting.
September 2018	The Board instructed staff to consider including Application Guidance that sets out which transactions are covered, noting the link to social contributions.	To be discussed at a future meeting.
June 2018	The Board instructed staff to check the consistency of the use of the terms “Binding Arrangement or Other Binding Arrangements”.	
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.	
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.	

Meeting	Instruction	Actioned
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.	
June 2018	The Board instructed staff to reconsider changing the term, “Customer” to suit the context of the public sector.	
June 2018	The Board instructed staff to consider swapping the order of “goods and services” to “services and goods.”	
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.	
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.	
June 2018	The Board instructed staff to consider replacing the term ‘commercial substance’ with ‘economic substance’.	
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 <a href="#">8.2.2.</a>
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.	To be discussed further a a future meeting.
June 2018	The Board instructed staff to simplify the draft guidance provided by referring to tax and other compulsory levies.	
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.	

Revenue (Instructions up to December 2018 meeting)  
IPSASB Meeting (March 2019)

Meeting	Instruction	Actioned
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 <a href="#">Consultation Paper, Accounting for Revenue and Non-Exchange Expenses</a> .	



# Agenda Item

## 9.1.3

### REVENUE PROJECT ROADMAP

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

# Agenda Item

## 9.2.1

### Scope

#### Questions – IFRS 15 alignment project

1. The IPSASB is asked to agree the scope of the [draft] Exposure Draft (ED), *Revenue from Binding Arrangements with Purchasers*.

#### Background

2. At its December 2018 meeting, the IPSASB agreed to retain the scope and scope exclusions of IFRS 15, *Revenue from Contracts with Customers* in the [draft] (ED). The IPSASB added a specific exclusion from the scope of the [draft] (ED) for transfers of non-financial assets that are not an output of an entity's activities and within the scope of IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant and Equipment* or IPSAS 31, *Intangible Assets*.

#### Detail

##### *Scope of the [draft] Exposure Draft (ED XX)*

3. Revenue transactions that will be in the scope of an updated IPSAS 23; *[Name to be determined]* needs to be articulated as a scope exclusion in the scope of the [draft] (ED). This is also consistent with IPSAS 9, *Revenue from Exchange Transactions* which excludes non-exchange revenue transactions from its scope as there were addressed in IPSAS 23.
4. Staff propose an additional scope exclusion of such revenue transactions from this [draft] (ED).

##### *Non-monetary exchanges*

5. One of the scope exclusions retained in the [draft] (ED) is non-monetary exchanges between entities in the same line of business to facilitate sales. The example of non-monetary exchanges that was obtained from IFRS 15, includes commodities like oil or milk swapped amongst suppliers in various locations to fulfill demand on a timely basis in a particular location. A similar example is also referred to in IPSAS 9.
6. The IPSASB is of the opinion that an example of oil and milk is more applicable to the private sector and may need to be replaced to suit the context of the public sector. Staff propose the following examples:

Example #	Description of Example
1.	Binding arrangement whereby a government department trades a parcel of land in an industrial area to a private corporation for a different parcel of land of similar value that the government will use as a national park.
2.	Binding arrangement between nations, whereby governments may trade strategic natural resources for another kind of product or service of similar value.

3.	Binding arrangement between two government entities that agree to an exchange of commodities to fulfil demand.
4.	Binding arrangement between two government entities that agree to an exchange of electricity to fulfil demand.

7. Staff prefer Example 1 or 2 as the examples are more suitable to the public sector and aligned with the GFS Manual. Example 3 refers to commodities in general and incorporates the previous example of oil and milk used in IFRS 15 and IPSAS 9. Example 4 is aligned to the examples used in IPSAS 41, *Financial Instruments*.

**Decisions required**

8. The IPSASB is asked to:
- (a) Agree to further exclude from the scope of [draft] (ED), revenue transactions that will be in the scope of IPSAS 23.
  - (b) Agree to replace the example of non-monetary exchanges between entities in the same line of business of commodities such as oil and milk with an example that is more suitable to the public sector.

# Agenda Item

## 9.2.2

### Definitions

#### Questions – IFRS 15 alignment project

1. The IPSASB is asked to agree the definitions of the terms, “binding arrangements” and “purchaser” and the related Application Guidance and Bases for Conclusions.

#### Background

2. At its September 2018 meeting, the IPSASB decided to use the term, “binding arrangement”, which will encompass the terms, “contract”. The IPSASB replaced the terms, “contract asset” and “contract liability” with the terms “binding arrangement asset” and “binding arrangement liability” respectively.
3. At its December 2018 meeting, the IPSASB replaced the term, “customer” with the broader term, “purchaser”. The IPSASB instructed staff to provide a definition of the term, “purchaser”, which incorporates the term, “customer” as defined in IFRS 15, *Revenue from Contracts with Customers*.

#### Detail

##### *Definition of Binding Arrangement*

4. The [draft] Exposure Draft (ED), *Revenue from Binding Arrangements with Purchasers* is underpinned by the concept of binding arrangements. The IPSASB replaced all references to “contractual arrangements” in IFRS 15 with references to the term, “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements.
5. Staff obtained the definition of binding arrangements in IPSAS 35, *Consolidated Financial Statements*. IPSAS 35 defines a binding arrangement as, “*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*”.
6. Staff acknowledged that the binding arrangement as defined in IPSAS 35 could be interpreted as a contract and the definition did not indicate whether the binding arrangement encompassed contracts. Therefore, the definition was slightly modified for the purposes of the [draft] (ED) to articulate that a binding arrangement encompass contracts.
7. The definitions of binding arrangement, binding arrangement asset, binding arrangement liability and contract are included in the table below.

Term	Definition
Binding Arrangement	A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement. A binding arrangement includes contract.
Contract	A contract is an agreement between two or more parties that creates enforceable rights and obligations.

Term	Definition
Binding Arrangement Asset	A binding arrangement asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser when that right is conditioned on something other than the passage of time (for example, the entity's future performance). A binding arrangement asset includes a contract asset.
Binding Arrangement Liability	A binding arrangement liability is an entity's obligation to transfer goods or services to a purchaser for which the entity has received consideration (or the amount is due) from the purchaser. A binding arrangement liability includes a contract liability.

8. The definitions of binding arrangement asset, binding arrangement liability and contract were obtained from IFRS 15. Staff also provided explanatory text in the Application Guidance and Basis for Conclusions to elaborate the term, binding arrangement (see paragraphs [AG6–AG18](#) and [BC6–BC7](#)) of [draft] (ED).

#### Definition of Purchaser

9. Staff provided the definition of “purchaser” in [draft] (ED) as, “*a party that acquires goods or services that are an output of an entity under a binding arrangement. A purchaser includes customer*”.
10. A customer is defined in the [draft] (ED) as, “*a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration*”.
11. The definition of a customer was obtained from IFRS 15. Staff removed the reference to ordinary activities from the definition of customer because IPSASB literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations.
12. Staff provided the explanation of the definition of the term, “purchaser” in the Application Guidance and Basis for Conclusion to acknowledge certain public sector specific transactions where the purchaser is the party that pays consideration for the goods and services agreed to within a binding arrangement, but is not necessarily the party the receives those goods and services (see paragraphs [AG19 and BC8 – BC9](#)) of [draft] (ED).

#### Decisions required

13. The IPSASB is asked to:
- (a) Agree the definitions of binding arrangement, binding arrangement asset, binding arrangement liability, contract and purchaser;
  - (b) Agree whether the definitions of binding arrangement and purchaser incorporates contract and customer respectively;
  - (c) Agree whether the definitions of binding arrangement asset and binding arrangement liability incorporates contract asset and contract liability respectively; and

- (d) Agree the explanatory text of binding arrangements and purchaser in the Application Guidance and Bases for Conclusions (see paragraphs [AG6–AG19](#) and [BC6–BC9](#)).

### Step 1: Identifying the Binding Arrangement with a Purchaser

#### Questions – IFRS 15 alignment project

1. The IPSASB is asked to agree with the staff's recommendation on the treatment of those binding arrangements where consideration is not probable.

#### Background

2. At its December 2018 meeting, the IPSASB decided to retain the criteria used to apply the revenue recognition model to identify contracts in IFRS 15, *Revenue from Contracts with Customers* when identifying binding arrangements in the [draft] Exposure Draft (ED), *Revenue from Binding Arrangements with Purchasers*. The criteria was retained to align with revenue recognition requirements in IFRS 15.
3. At its December 2018 meeting, the IPSASB instructed staff to provide explanatory text in the Application Guidance and Basis for Conclusions for certain criteria that are difficult to meet in the public sector.

#### Detail

3. The criteria in [paragraphs 10\(a\)-\(e\)](#) of the [draft] (ED) forms part of Step 1: *Identifying the binding arrangement(s) with a purchaser*. [Paragraph 10\(e\)](#) is part of the requirements in paragraph 10<sup>1</sup>. [Paragraph 10\(e\)](#) states that a binding arrangement is valid or exists when it is probable to collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser.
4. This criterion acts like a collectability threshold and assesses the purchaser's credit risk in order to identify the validity of a binding arrangement. The purchaser's credit risk is the ability and intention of the purchaser to pay the promised consideration. The probability criterion is assessed at the inception of the binding arrangement. This assessment is for the purposes of recognition and does not impact measurement or the presentation of revenue.

#### *Probability of Revenue Recognition (see [paragraph 10\(e\)](#))*

5. The population of transactions that would fail to meet the probability criterion in the private sector at the inception of the contract is small. The underlying assumption in IFRS 15 is that collectability of consideration from customers is usually not an issue for the private sector because:
  - (a) Entities generally enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and

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<sup>1</sup> Paragraph 10a-e of [draft] Exposure Draft (ED) on Revenue states that an entity can apply the revenue recognition model at the inception of the binding arrangement when the following criteria are met:

- a. The parties have approved the binding arrangement and are committed to perform their respective obligations;
- b. The entity can identify each party's rights regarding the goods or services to be transferred;
- c. The entity can identify the payment terms for the goods or services to be transferred;
- d. The binding arrangement has commercial substance; and
- e. It is probable that the entity will collect the consideration to which it will be entitled.

- (b) Most entities would not enter into a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.
6. The IPSASB acknowledged that assessing the probability criterion for certain binding arrangements with purchasers is an issue for the public sector in some jurisdictions. Some public sector entities are required to provide certain goods and services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of credit risk.
  7. The IPSASB also acknowledged that public sector entities may enter into numerous binding arrangements where collectability of the consideration is not probable. Some jurisdictions recognize the full amount of revenue transactions from such binding arrangements at the inception and assess the collectability of consideration separately as a subsequent measurement issue.
  8. Staff propose the following approaches to be included in the Application Guidance and Basis for Conclusions of the [draft] (ED) (see [paragraphs AG28](#)).

Approach	Description of Approach
<i>Option 1: Retain guidance in IFRS 15</i>	<p>This approach is similar to that prescribed in IFRS 15 and IPSAS 9. If a binding arrangement with a purchaser does not meet the criteria in <a href="#">paragraph 10</a>, then the arrangement is not a revenue transaction.</p> <p>If an arrangement does not meet all the criteria at the outset, such binding arrangements need to be retested to assess if all the criteria are subsequently met. Entities only recognize revenue when it receives the cash (see <a href="#">paragraphs 10 – 17</a>).</p> <p>This approach is aligned to IFRS. The issue is that under this option, the numerous binding arrangements where collectability of the consideration is not probable will not be in the scope of the [draft] (ED).</p>
<i>Option 2: Public Sector Approach</i>	<p>This approach proposes that at inception of the binding arrangement where consideration is not probable, public sector entities may recognize the full amount of revenue from such binding arrangements and analyze collectability and impairment subsequently.</p> <p>This approach acknowledges that public sector entities may enter into arrangements where the receipt of the consideration is in question. This means that there could be a large number of transactions are not within the scope of the [draft] (ED) if the requirements in IFRS 15 are followed.</p> <p>This may allow users of financial statements to assess the performance of an entity's sales function and receivables collection function separately as those functions are often managed separately (see <a href="#">paragraphs AG23 – AG28</a>).</p> <p>However, this approach is not aligned to IFRS 15 and the previous revenue recognition requirements in IPSAS 9, <i>Revenue from Exchange Transactions</i> and IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>.</p>



**Decisions required**

9. The IPSASB is asked to:
- (a) Agree the approach to account for binding arrangements when it is not probable that an entity will collect the consideration to which it will be entitled.
  - (b) Agree the explanatory text in the Application Guidance or Basis for Conclusions (see paragraphs [AG20–AG28](#) and [BC7–BC8](#)).

**Other Outstanding Items****Questions – IFRS 15 alignment project**

1. The IPSASB is asked to agree the staff's recommendation on the outstanding items for the [draft] Exposure Draft (ED), *Revenue from Binding Arrangements with Purchasers*.

**Background**

2. The IPSASB instructed staff to provide a complete version of the [draft] (ED) for preliminary approval at the March 2019 meeting in order to provide the 'cornerstone' for development of the [draft] Exposure Draft (ED), *Grants and Transfers* and the updated IPSAS 23.

**Detail**

3. The IPSASB needs to consider the following outstanding items before approving the [draft] (ED) at the March 2019 meeting:
  - (a) Location of Revenue definitions;
  - (b) Terminology changes; and
  - (c) Consequential amendments with respect to Leases.

*Location of Revenue definitions*

4. IPSAS and IFRS have taken different approaches to the location of the revenue definitions. The revenue definitions are located in the [draft] (ED) and IPSAS 1, *Presentation of Financial Statements*.
5. The IASB's definition of revenue is only included in IFRS 15, *Revenue from Contracts with Customers*, having previously been located in IAS 18, *Revenue*. Unlike IPSAS 1, IAS 1, *Presentation of Financial Statements*, does not include the definitions of revenue and expenses<sup>2</sup>.
6. The IPSASB is asked to decide on the location of the revenue definition, which could be in the [draft] (ED) or IPSAS 1 or both. Staff prefer to include the definitions of revenue in both IPSAS 1 and the [draft] (ED). A similar decision will be required for the location of the expenses definition (discussed in the Non-Exchange Expenses project – Agenda Item 10). Staff consider that the location of these definitions should be consistent.

*Terminology changes*

7. At its June 2018 meeting, The IPSASB approved terminology changes for consistency with IPSAS literature and the public sector. These changes are routinely required in IPSAS that are converged with IFRS.
8. The additional terminology changes below that are proposed by staff were not considered at the June 2018 meeting.

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<sup>2</sup> Expenses is not a defined term in IFRS, although it is defined in the IASB's Conceptual Framework.

IFRS 15	Proposed IPSAS Terminology
Customary business practices	<u>Entity's customary practices</u> because this is consistent with IPSAS 40, <i>Public Sector Combinations</i> .
Industry	<u>Sector</u> because this is consistent with IPSAS 40.
Commercial objective	<u>Economic objective</u> because the term, 'commercial' is profit oriented. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits. The term, 'economic' is more appropriate as it incorporates the objectives of profit making and service delivery.

#### *Consequential amendments to Leases*

9. IFRS 15, was issued in May 2014. IFRS 16, *Leases* was subsequently issued in January 2016 and replaced IAS 17, *Leases*. The scope, treatment of costs incurred to fulfil a contract and repurchase agreements in IFRS 15 were amended when IFRS 16 was issued.
10. The IPSASB has a project in place, Exposure Draft (ED) 64, *Leases* to replace IPSAS 13, *Leases*. Any reference to ED 64 shall be read as a reference to IPSAS 13 since the IPSASB has not issued a new standard on *Leases*.
11. Since the [draft] (ED) is based on IFRS 15, staff amended certain paragraphs in the [draft] (ED) to align to IPSAS 13 requirements. The amended paragraphs are in [Appendix A](#).

#### **Decisions required**

12. The IPSASB is asked to:
  - (a) Agree on the location of the revenue definition;
  - (b) Agree to the proposed terminology changes; and
  - (c) Agree the consequential amendments as a result of applying IPSAS 13 and not IFRS 16.

# Appendix A

## (Agenda Item 9.2.4)

### Consequential Amendments to Leases

...

#### Scope

5. An entity shall apply this [draft] Standard to all binding arrangements with purchasers, except the following:
- (a) Lease contracts within the scope of ~~IFRS 16~~IPSAS 13, *Leases*;
  - (b) ...

...

#### Binding Arrangement Costs

...

98. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:
- (a) ...;
  - (c) Allocations of costs that relate directly to the binding arrangement or to activities in the binding arrangement (for example, costs of management and supervision incurred as a result of the binding arrangement, insurance and depreciation of tools and equipment ~~and right of use assets~~ used in fulfilling the binding arrangement);
  - (d) ...

...

#### Application Guidance

*This Appendix is an integral part of the [draft] (ED XX).*

...

#### Repurchase Agreements

...

*A Forward or a Call Option*

- AG100. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a purchaser does not obtain control of the asset because the purchaser is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset even though the purchaser may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:
- (a) A lease in accordance with ~~IFRS 16~~IPSAS 13, *Leases* if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset ~~unless the binding arrangement is part of a sale and leaseback transaction. If the binding arrangement is part of a sale and leaseback transaction, the entity shall continue to recognize the asset and shall recognize a financial liability for any consideration received from the purchaser. The entity shall account for the financial liability in accordance with IPSAS 41, *Financial Instruments*; or~~

(b) ...

...

*A Put Option*

AG104. If an entity has an obligation to repurchase the asset at the purchaser's request (a put option) at a price that is lower than the original selling price of the asset, the entity shall consider at the inception of the binding arrangement whether the purchaser has a significant economic incentive to exercise that right. The purchaser's exercising of that right results in the purchaser effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the purchaser has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IFRS 16/IPSAS 13. ~~unless the binding arrangement is part of a sale and leaseback transaction. If the binding arrangement is part of a sale and leaseback transaction, the entity shall continue to recognize the asset and shall recognize a financial liability for any consideration received from the purchaser. The entity shall account for the financial liability in accordance with IPSAS 41.~~

...

### Project Management Proposal

#### Purpose

1. The IPSASB is asked to agree the proposed project management approach.
2. To communicate the process to be carried out by Staff and the Task Force to prepare Illustrative Examples in the [draft] Exposure Draft (ED), *Revenue from Binding Arrangements with Purchasers*.

#### Detail

3. At its December 2018 meeting, the IPSASB instructed staff to complete the [draft] (ED) for the March 2019 meeting. The provisional approval of the [draft] (ED) at the March 2019 meeting is critical to making progress on the Illustrative Examples that will accompany the [draft] (ED). The final [draft] (ED) will be approved at the June 2019 meeting.
4. The complete version for the [draft] (ED) that was submitted to the IPSASB comprises of Core text, Application Guidance, Basis for Conclusions and Illustrative Examples. However, staff still needs to incorporate IASB and IPSASB Guidance and evaluate each example to determine if it is appropriate to include in the [draft] (ED). The Illustrative Examples will also need to be looked at from a public sector perspective. The Illustrative Examples will only be completed at the June 2019 meeting.

#### Task Force

5. Staff recommends the IPSASB to delegate responsibility for developing the Illustrative Examples for the [draft] (ED) to a Task Force. This innovative approach builds on the process followed on projects such as Cash Basis IPSAS, Financial Instruments, Financial Sustainability, Heritage and Measurement.
6. The Task Force will support staff in developing the Illustrative Examples, make recommendations and highlight any key issues for the IPSASB's consideration.
7. This approach is proposed for the following reasons:
  - (a) **Complexity.** The Illustrative Examples derived from IFRS 15, *Revenue from Contracts with Customers*, are expressed from the perspective of the private sector. The Illustrative Examples for the [draft] (ED) need to explain and illustrate the principles from the perspective of the public sector.
  - (b) **IPSASB Decision.** The IPSASB agreed in June 2017 to consider innovative and practical approaches to develop guidance for these transactions. The IPSASB has a number of high profile projects and a busy agenda for 2019, this approach allows this project to proceed efficiently while needing limited agenda time.
8. From a due process perspective, even if the IPSASB agrees to delegate the tasks, the IPSASB would still be required to approve the [draft] (ED) by a vote during a meeting. However, the Task Force would highlight any key issues and decisions for the IPSASB consideration, when reviewing and approving the [draft] (ED).

9. Staff has developed a tentative plan for Task Force discussions for 2019, see the [Appendix B](#) to this Issues Paper.

**Decisions required**

10. The IPSASB is asked to:
- (a) Agree to delegate responsibility to undertake a detailed review of Illustrative Examples to the Task Force; and
  - (b) The staff proposal on project management, that is, the process carried out by Staff and the Task Force to prepare Illustrative Examples.

## Appendix B (Agenda Item 9.2.5)

### Process for the Development of Illustrative Examples

1. Applying the IFRS 15, *Revenue from Contracts with Customers* can present interpretation challenges in the public sector. The IPSASB agreed that additional non-authoritative illustrative examples should be developed to help those applying the principles.
2. The following process will be followed by staff and the Task Force in developing the non-authoritative illustrative examples in [draft] Exposure Draft (ED), *Revenue from Binding Arrangements with Purchasers*:
  - (a) **Step One: Incorporate IASB Guidance** – Staff will need to identify the applicable IASB guidance that accompanies IFRS 15 and evaluate each example to determine if it is appropriate to include in the [draft] (ED). Staff will consider if there is a public sector issue that warrants departure and make necessary changes to make examples public sector specific.
  - (b) **Step Two: Incorporate IPSASB Guidance** - Staff will need to determine if illustrative examples that accompany IPSAS 9, *Revenue from Exchange Transactions* are appropriate to include in the [draft] (ED).
  - (c) **Step Three: Develop specific examples requested by the IPSASB** - Staff will need to develop specific examples as directed by the IPSASB and Task Force.
  - (d) **Step Four – Task Force review staff developed examples** – The Task Force will need to review the examples prepared by staff.

### Task Force Plan (Illustrative Examples)

3. The table below shows the tentative schedule of the main activities to be followed by the Task Force after the provisional approval of the [draft] (ED) on Revenue at the March 2019 meeting. This timeline is dependent on the assumption that the final [draft] (ED) will be approved at the June 2019 meeting.

Date	Proposed Task
March 2019 - Teleconference	<p>After the IPSASB meeting, Task Force members discuss key issues and plan for the approach on working the Illustrative Examples.</p> <p>Potential approaches could involve allocating the numerous examples in IFRS 15, <i>Revenue from Contracts with Customers</i> amongst Task Force members to ensure that the examples are completed on time.</p>
End-of-April 2019 - Teleconference	<p>Task Force members to review the Illustrative Examples in IFRS 15 and discuss the changes and updates to the terminology, so that Illustrative Examples can suit the context of the public sector.</p> <p>Consideration and analysis of responses during the Task Force meeting.</p>



Revenue (Development of Illustrative Examples)  
*IPSASB Meeting (March 2019)*

<b>Date</b>	<b>Proposed Task</b>
Mid-May 2019 - Teleconference	Discussions on the development of the Illustrative Examples. Finalize the Illustrative Examples.
End-of-May 2019 Teleconference or In person Meeting TBD	Review and Finalize the Illustrative Examples.
June 2019 - IPSASB meeting	Task Force report back the Illustrative Examples prepared to the IPSASB for consideration by the IPSASB.  Review and approval of the Illustrative Examples and the final [draft] (ED) by the IPSASB.

Exposure Draft XX  
[Issued]  
Comments due: [Date]

*Proposed International Public Sector Accounting Standard®*

Revenue from Contracts or Other  
Binding Arrangements with  
Customers

Revenue from  
Transactions Binding Arrangements  
with Performance  
Obligations Purchasers

IPSASB

International Public  
Sector Accounting  
Standards Board®



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

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

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

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

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## REQUEST FOR COMMENTS

This Exposure Draft, [~~Title~~[Revenue from Transactions Binding Arrangements with Performance Obligations Purchasers](#)], 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](http://www.ipsasb.org). The approved text is published in the English language.

# EXPOSURE DRAFT XX, REVENUE FROM BINDING ARRANGEMENTS WITH PURCHASERS

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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 binding arrangement with a customer purchaser.

### 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 purchasers 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 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 binding arrangements with similar characteristics and in similar circumstances.
4. This [draft] Standard specifies the accounting for an individual contract binding arrangement with a customer purchaser. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of contracts 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 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 binding arrangements with customers purchasers, except the following:
  - (a) Lease contracts within the scope of IFRS 16 Leases IPSAS 13, *Leases*<sup>1</sup>;
  - (b) Insurance Co contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts<sup>2</sup>; 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 rights or obligations within the scope of IFRS 9 Financial Instruments, IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements, IPSAS 36, Investments in Associates and Joint Ventures, IPSAS 37, Joint Arrangements and IPSAS 41, Financial Instruments IFRS 40 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; and

<sup>1</sup> 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*.

<sup>2</sup> There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on Insurance contracts.



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(d) Non-monetary exchanges between entities in the same line of business to facilitate sales to ~~customers—purchasers~~ or potential ~~customerspurchasers~~. For example, this [draft] Standard would not apply to a ~~contract—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~~ a government department and a private corporation, whereby, the government department trades a parcel of land in an industrial area to a private corporation for a different parcel of land that the government will use as a national park. The parcel of land traded are of a similar value. Alternatively; two nations may enter into a binding arrangement for the governments to trade strategic natural resources for another kind of product or service of similar value;

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

(d)(f) Revenue arising from non-exchange transactions that falls ~~in the~~ within the scope of [updated] IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*; [name to be determined]

6. An entity shall apply this [draft] Standard to a ~~contract~~binding arrangement (other than a ~~contract binding arrangement~~ listed in paragraph—55) only if the counterparty to the ~~contractbinding arrangement~~ is a ~~customerpurchaser~~. A ~~customer—purchaser~~ is a party that has ~~contracted—entered into a binding arrangement~~ with an entity to obtain goods or services that are an output of the entity's ~~ordinary~~ activities in exchange for consideration. ~~—AA~~ counterparty to the ~~contractbinding arrangement~~ would not be a ~~customerpurchaser~~ if, for example, the counterparty has ~~contracted—entered into a binding arrangement~~ with the entity to participate in an activity or process in which the parties to the ~~contractbinding arrangement~~ share in the risks and benefits or service potential that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ~~ordinary~~ activities.

6-7. A ~~contract~~binding arrangement with a ~~customer—purchaser~~ 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~~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—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 ~~contractbinding 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~~binding arrangement, then the entity shall apply this [draft] Standard to separate and/or initially measure the part (or parts) of the ~~contractbinding arrangement~~.

8. This [draft] Standard specifies the accounting for the incremental costs of obtaining a ~~contract~~binding arrangement with a ~~customer—purchaser~~ and for the costs incurred to fulfil a ~~contractbinding arrangement~~ with a ~~customer—purchaser~~ 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—binding arrangement~~ with a ~~customerpurchaser~~ (or part of that ~~contractbinding arrangement~~) that is within the scope of this [draft] Standard.

**Commented [AD1]:** Staff replaced the example of oil and milk with an example more suited for the public sector. Staff proposed the following examples:

1. Government department may trade a parcel of land in an industrial area to a private corporation for a different parcel of land of similar value that the government will use as a national park. The land may have the same value.
2. Between nations, governments may trade strategic natural resources for another kind of product or service.
3. Two government entities that agree to an exchange of Commodities. (Broader and incorporates oil reserves etc).
4. Two government entities that agree to an exchange of Electricity. (Consistent with the approach followed by the Board in IPSAS 41, *Financial Instruments*).

Staff prefer Examples 1 and 2 which are obtained from the GFS Manual.

**Question for the Board**

Does the Board agree with the staff view?

If not, which of the other 2 examples does the Board prefer?

**Commented [AD2]:** Staff consider that this [draft] standard should exclude Revenue addressed in an updated IPSAS 23, in the same way IPSAS 9 excluded non-exchange revenue and the current IPSAS 23 comments (but not specifically excludes) that revenue from exchange transactions are accounted for under IPSAS 9.

**Question for the Board**

Does the Board agree with the staff view?

## Definitions

7.9. 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 the arrangement. A binding arrangement includes contract.

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

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

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

A customer is a party that has contracted 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~~binding arrangement~~ with a customer purchaser to transfer to the customer purchaser either:

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

A purchaser is a party that acquires goods or services that are an output of an entity under a binding arrangement. A purchaser includes customer.

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

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 purchaser.

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

**Commented [AD3]:** There is no definition of the term, 'purchaser' in the current IPSAS literature. Staff came up with a definition of 'purchaser' for this [draft] standard. The term "purchaser" also includes 'customer'. The definition of the term, 'customer' in IFRS 15 is retained.

### Questions for the Board

1. Does the Board agree with the definition of purchaser proposed by staff?
2. Should the definition of customer be retained?

## Recognition (Steps 1, 2 and 5)

### Identifying the ~~contract~~Binding Arrangement (Step 1)

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

- (a) The parties to the ~~contract~~binding arrangement have approved the ~~contract~~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~~binding arrangement has ~~commercial-economic~~ substance<sup>3</sup> (i.e., the risk, timing or amount of the entity's future cash flows ~~or service potential~~ is expected to change as a result of the ~~contract~~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~~purchaser. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the ~~customer's~~-purchaser's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the ~~contract~~binding arrangement if the consideration is variable because the entity may offer the ~~customer~~-purchaser a price concession (see paragraph 53<sup>52</sup>).

11. A ~~contract~~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~~binding arrangement ~~or other binding arrangement~~ is ~~is created through legal or equivalent means~~ a matter of law. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. However, for other binding arrangements enforcement mechanisms outside the legal system may be required. ~~Contracts~~Binding arrangements can be written, oral or implied by an entity's customary ~~business~~ practices. The practices and processes for establishing ~~contracts~~binding arrangements with ~~customers~~-purchasers vary across legal jurisdictions, industries-sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of ~~customer~~-purchaser 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~~-purchaser creates enforceable rights and obligations.

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

9.13. For the purpose of applying this [draft] Standard, a ~~contract~~binding arrangement does not exist if each party to the ~~contract~~binding arrangement has the unilateral enforceable right to terminate a

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wholly unperformed contractbinding arrangement without compensating the other party (or parties). A contractbinding 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 customerpurchaser; and
- (b) The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

10-14. If a contract-binding arrangement with a customer-purchaser meets the criteria in paragraph 109 at contractthe inception of the binding arrangementinception, 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-purchaser's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customerpurchaser.

11-15. If a contractbinding arrangement with a customer-purchaser does not meet the criteria in paragraph 109, an entity shall continue to assess the contractbinding arrangement to determine whether the criteria in paragraph 109 are subsequently met.

12-16. When a contract-binding arrangement with a purchasercustomer does not meet the criteria in paragraph 109 and an entity receives consideration from the purchasercustomer, 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 purchasercustomer and all, or substantially all, of the consideration promised by the purchasercustomer has been received by the entity and is non-refundable; or
- (b) The contractbinding arrangement has been terminated and the consideration received from the purchasercustomer is non-refundable.

13-17. An entity shall recognize the consideration received from a purchasercustomer as a liability until one of the events in paragraph 1615 occurs or until the criteria in paragraph 109 are subsequently met (see paragraph 1514). Depending on the facts and circumstances relating to the contractbinding 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 purchasercustomer.

*Combination of contractsBinding Arrangements*

14-18. An entity shall combine two or more contractsbinding arrangements entered into at or near the same time with the same purchasercustomer (or related parties of the purchasercustomer) and account for the contracts-binding arrangements as a single contractbinding arrangement if one or more of the following criteria are met:

- (a) The contractsbinding arrangements are negotiated as a package with a single commercial economic objective;
- (b) The amount of consideration to be paid in one contractbinding arrangement depends on the price or performance of the other contractbinding arrangement; or

**Commented [AD4]:** Staff replaced the term, 'commercial objective' with the term, 'economic objective' because the term, 'commercial' is profit oriented. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits. The term, 'economic' is more appropriate as it incorporates the objectives of profit making and service delivery.

The approach taken by staff is also consistent the approach in paragraph 10d which replaced the term 'commercial substance' with the term, 'economic substance'.

Alternatively, staff propose that the term 'commercial objective' is replaced with the term 'objective'. The concern is that the term, 'objective' may be broad and cover many objectives in addition to the objectives of financial reporting of profit making and service delivery.

**Questions for the Board**

1. Does the Board agree with the staff view?
2. If not, does the Board agree with the alternative view?

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- (c) The goods or services promised in the contract binding arrangements (or some goods or services promised in each of the contract binding arrangements) are a single performance obligation in accordance with paragraphs 23-22-3130.

Binding Arrangement Contract Modifications to a Binding Arrangement

15-19. A contract modification to a binding arrangement modification is a change in the scope or price (or both) of a contract binding arrangement that is approved by the parties to the contract binding arrangement. In some industries-sectors and jurisdictions, a modification to a contract binding arrangement modification may be described as a change order, a variation or an amendment. A contract modification to a binding arrangement modification exists when the parties to a contract binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract binding arrangement. A contract modification to a binding arrangement modification could be approved in writing, by oral agreement or implied by an entity's customary practices customary business practices. If the parties to the contract binding arrangement have not approved a modification to a contract binding arrangement modification, an entity shall continue to apply this [draft] Standard to the existing contract binding arrangement until the contract modification to a binding arrangement modification is approved.

16-20. A contract modification to a binding arrangement modification may exist even though the parties to the contract 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 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 binding arrangement and other evidence. If the parties to a contract binding arrangement have approved a change in the scope of the contract 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 51-50-5554 on estimating variable consideration and paragraphs 57-56-5958 on constraining estimates of variable consideration.

17-21. An entity shall account for a contract modification to a binding arrangement modification as a separate contract binding arrangement if both of the following conditions are present:

- (a) The scope of the contract binding arrangement increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 27-26-3130); and
- (b) The price of the contract 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 binding arrangement. For example, an entity may adjust the stand-alone selling price of an additional good or service for a discount that the purchaser 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 purchaser customer.

18-22. If a contract modification to a binding arrangement modification is not accounted for as a separate contract binding arrangement in accordance with paragraph 2120, an entity shall account for the promised goods or services not yet transferred at the date of the modification to a contract binding arrangement modification (i.e. the remaining promised goods or services) in whichever of the following ways is applicable:

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- (a) An entity shall account for the ~~contract modification to a binding arrangement modification~~ as if it were a termination of the existing ~~contract binding arrangement~~ and the creation of a new ~~contract binding arrangement~~, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the ~~contract modification to a 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)~~<sup>22(b)</sup>) is the sum of:
  - (i) The consideration promised by the ~~purchase customer~~ (including amounts already received from the ~~purchase 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 modification to a binding arrangement modification~~.
- (b) An entity shall account for the ~~contract modification to a binding arrangement modification~~ as if it were a part of the existing ~~contract 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 modification to a binding arrangement modification~~. The effect that the ~~contract modification to a 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 modification to a 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)~~<sup>(a)</sup> and ~~(b)~~<sup>(b)</sup>, then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified ~~contract binding arrangement~~ in a manner that is consistent with the objectives of this paragraph.

**Identifying ~~P~~performance ~~obligations~~Obligations (Step 2)**

~~19-23.~~ At ~~contract the inception of the binding arrangement inception~~, an entity shall assess the goods or services promised in a ~~contract binding arrangement~~ with a ~~purchase customer~~ and shall identify as a performance obligation each promise to transfer to the ~~purchase 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 ~~purchase customer~~ (see paragraph ~~24~~<sup>23</sup>).

~~20-24.~~ A series of distinct goods or services has the same pattern of transfer to the ~~purchase 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 ~~purchase customer~~ would meet the criteria in paragraph ~~36~~<sup>35</sup> to be a performance obligation satisfied over time; and
- (b) In accordance with paragraphs ~~40-39~~<sup>40</sup>–~~41~~<sup>40</sup>, 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 ~~purchase customer~~.

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*Promises in ~~contracts~~Binding Arrangements with ~~customers~~Purchasers*

24-25. A ~~contract~~binding arrangement with a ~~purchaser~~customer generally explicitly states the goods or services that an entity promises to transfer to a ~~purchaser~~customer. However, the performance obligations identified in a ~~contract~~binding arrangement with a ~~purchaser~~customer may not be limited to the goods or services that are explicitly stated in that ~~contract~~binding arrangement. This is because a ~~contract~~binding arrangement with a ~~purchaser~~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~~binding arrangement, those promises create a valid expectation of the ~~purchaser~~customer that the entity will transfer a good or service to the ~~purchaser~~customer.

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

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

22-27. Depending on the ~~contract~~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 ~~\_AG77\_B34\_~~\_AG77\_B34\_~~\_AG85B38~~);
- (d) Performing a ~~contractually task for a purchaser that is~~ agreed-upon ~~task (or tasks) for a customer in the binding arrangement~~;
- (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 ~~purchaser~~customer to use as and when the ~~purchaser~~customer decides;
- (f) Providing a service of arranging for another party to transfer goods or services to a ~~purchaser~~customer (for example, acting as an agent of another party, as described in paragraphs ~~\_AG77\_B34\_~~\_AG77\_B34\_~~\_AG85B38~~);
- (g) Granting rights to goods or services to be provided in the future that a ~~purchaser~~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 ~~purchaser~~customer;
- (i) Granting licenses (see paragraphs ~~\_AG99\_B52\_~~\_AG99\_B52\_~~\_AG112B63B~~); and
- (j) Granting options to purchase additional goods or services (when those options provide a ~~purchaser~~customer with a material right, as described in paragraphs ~~\_AG86\_B39\_~~\_AG86\_B39\_~~\_AG90B43~~).



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23-28. A good or service that is promised to a purchasercustomer is distinct if both of the following criteria are met:

- (a) The purchasercustomer 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 purchasercustomer (i.e. the good or service is capable of being distinct). A purchaser can benefit or receive service potential from the good or service transferred to a beneficiary where the transfer of the good or service to the beneficiary contributes to the purchaser achieving its service objectives; and
- (b) The entity's promise to transfer the good or service to the purchasercustomer is separately identifiable from other promises in the contract-binding arrangement (i.e. the promise to transfer the good or service is distinct within the context of the contractbinding arrangement).

24-29. A purchasercustomer 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 purchasercustomer may be able to benefit or receive service potential from a good or service on its own. For other goods or services, a purchaser 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 purchasercustomer has already obtained from the resource recipient (including goods or services that the entity will have already transferred to the purchasercustomer under the contractbinding arrangement) or from other transactions or events. Various factors may provide evidence that the purchasercustomer 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 purchaser customer can benefit or receive service potential from the good or service on its own or with other readily available resources.

25-30. In assessing whether an entity's promises to transfer goods or services to the purchasercustomer 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 contractbinding 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 purchasercustomer 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 contractbinding arrangement into a bundle of goods or services that represent the combined output or outputs for which the purchasercustomer has contractedentered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the purchasercustomer. 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 contractbinding arrangement.



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- (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 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.

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 binding arrangement as a single performance obligation.

**Satisfaction of ~~p~~Performance ~~obligations~~Obligations (Step 5)**

26-32. 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 purchaser customer. An asset is transferred when (or as) the purchaser customer obtains control of that asset.

27-33. For each performance obligation identified in accordance with paragraphs ~~23-22-31~~30, an entity shall determine at ~~contract the inception of the 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.

28-34. 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), or the capacity to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:

- (a) Using the asset to produce goods or provide services (including public services);
- (b) Using the asset to enhance the value of other assets;
- (c) Using the asset to settle liabilities or reduce expenses;
- (d) Selling or exchanging the asset;
- (e) Pledging the asset to secure a loan; and
- (f) Holding the asset.

29-35. When evaluating whether a purchaser customer obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs ~~AG113-B64-AG125~~B76).

**Performance ~~e~~Obligations ~~satisfied-Satisfied over-Over time~~Time**

30-36. 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 purchaser customer simultaneously receives and consumes the benefits or service potential provided by the entity's performance as the entity performs (see paragraphs ~~AG46-B3-AG47~~B4);

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- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchasereustomer controls as the asset is created or enhanced (see paragraph \_AG48B5); 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).

31-37. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted contractually by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at contract—the inception of the binding arrangement~~inception~~. After ~~contract~~the inception of the binding arrangement~~inception~~, an entity shall not update the assessment of the alternative use of an asset unless the parties to the contract binding arrangement approve a contract modification to a binding arrangement modification—that substantively changes the performance obligation. Paragraphs \_AG49B6–AG51B8 provide guidance for assessing whether an asset has an alternative use to an entity.

32-38. An entity shall consider the terms of the contractbinding arrangement, as well as any laws that apply to the contractbinding arrangement, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph \_36(c)35(e). 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 contractbinding arrangement, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contractbinding arrangement is terminated by the purchasereustomer or another party for reasons other than the entity's failure to perform as promised. Paragraphs \_AG52B9–AG56B13 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 ~~point~~Point in ~~time~~Time*

33-39. If a performance obligation is not satisfied over time in accordance with paragraphs \_3635–3837, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a purchasereustomer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs \_3231–3534. 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 purchasereustomer is presently obliged to pay for an asset, then that may indicate that the purchaserecustomer 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 purchaserecustomer has legal title to the asset—legal title may indicate which party to a contractbinding 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 purchaserecustomer has obtained control of the asset. If an entity retains legal title solely as protection against the purchaserecustomer's failure to pay,

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those rights of the entity would not preclude the purchasercustomer from obtaining control of an asset.

- (c) The entity has transferred physical possession of the asset—the purchasercustomer's physical possession of an asset may indicate that the purchasercustomer 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 purchasercustomer 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 purchasercustomer controls. Paragraphs ~~AG113 B64~~ AG125B76, AG126 B77–AG127B78 and AG128 B79–AG131B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.
- (d) The purchasercustomer 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 purchasercustomer may indicate that the purchasercustomer 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 purchasercustomer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.
- (e) The purchasercustomer has accepted the asset—the customer's purchaser's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits and service potential from, the asset. To evaluate the effect of ~~a the acceptance clause in a binding arrangement~~contractual or other binding arrangement~~customer acceptance clause~~ on when control of an asset is transferred, an entity shall consider the guidance in paragraphs ~~AG132 B83~~–AG135B86.

Measuring ~~p~~Progress ~~T~~owards ~~complete~~–~~Complete~~ ~~satisfaction~~–~~Satisfaction~~ of a ~~performance~~  
Performance obligationObligation

~~34.40.~~ For each performance obligation satisfied over time in accordance with paragraphs ~~36.35–38.37~~, 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 purchasercustomer (i.e. the satisfaction of an entity's performance obligation).

~~35.41.~~ 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

~~36.42.~~ Appropriate methods of measuring progress include output methods and input methods. Paragraphs ~~AG57 B14~~–AG62B19 provide guidance for using output methods and input

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methods to measure an entity's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the [purchaser/customer](#).

**37-43.** 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 [purchaser/customer](#). Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a [purchaser/customer](#) when satisfying that performance obligation.

**38-44.** 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 [IAS/PSAS-8-3, Accounting Policies, Changes in Accounting Estimates and Errors](#).

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

**39-45.** 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.

**40-46.** In some circumstances (for example, in the early stages of a [contract-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 (Steps 3 and 4)

**41-47.** 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 [57-56-59-58](#)) that is allocated to that performance obligation.

### Determining the ~~T~~ransaction-~~price~~Price (Step 3)

**42-48.** An entity shall consider the terms of the [contract-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 [purchaser/customer](#), excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a [contract-binding arrangement](#) with a [purchaser/customer](#) may include fixed amounts, variable amounts, or both.

**43-49.** The nature, timing and amount of consideration promised by a [purchaser/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 [60-59](#));
- (b) Constraining estimates of variable consideration (see paragraphs [57-56-59-58](#));
- (c) The existence of a significant financing component in the [contract-binding arrangement](#) (see paragraphs [61-60-66-65](#));

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- (d) Non-cash consideration (see paragraphs ~~67.66~~~~–7069~~); and
- (e) Consideration payable to a [purchasercustomer](#) (see paragraphs ~~71.70~~~~–7372~~).

~~44.50.~~ For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the [purchasercustomer](#) as promised in accordance with the existing [contractbinding arrangement](#) and that the [contract-binding arrangement](#) will not be cancelled, renewed or modified.

*Variable ~~e~~Consideration*

~~45.51.~~ If the consideration promised in a [contract-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 [purchasercustomer](#).

~~46.52.~~ 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.

~~47.53.~~ The variability relating to the consideration promised by a [purchasercustomer](#) may be explicitly stated in the [contractbinding arrangement](#). In addition to the terms of the [contractbinding arrangement](#), the promised consideration is variable if either of the following circumstances exists:

- (a) The [purchasercustomer](#) 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 [contractbinding arrangement](#). That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, [industry-sector](#) 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 [contractbinding arrangement](#) with the [purchasercustomer](#), is to offer a price concession to the [purchasercustomer](#).

~~48.54.~~ 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 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 [contractbinding arrangement](#)). The most likely amount may be an appropriate estimate of the amount of variable consideration if the [contract-binding arrangement](#) has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

~~49.55.~~ An entity shall apply one method consistently throughout the [contract-binding arrangement](#) when estimating the effect of an uncertainty on an amount of variable consideration to which the

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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~~*

~~50-56.~~ An entity shall recognize a refund-~~liability~~ if the entity receives consideration from a ~~purchase~~customer and expects to refund some or all of that consideration to the ~~purchase~~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 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 ~~AG63.B20–AG70.B27~~.

*Constraining ~~Estimates of Variable Consideration~~ Consideration*

~~51-57.~~ An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph ~~54~~53 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.

~~52-58.~~ 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 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 binding arrangements~~ in similar circumstances.
- (e) The ~~contract binding arrangement~~ has a large number and broad range of possible consideration amounts.

~~53-59.~~ An entity shall apply paragraph ~~AG110.B63~~ 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.

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*Reassessment of ~~v~~Variable ~~consideration~~ Consideration*

~~54-60.~~ 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 ~~88-91~~ ~~90~~.

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

~~55-61.~~ 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-binding arrangement~~ (either explicitly or implicitly) provides the ~~purchase customer~~ or the entity with a significant benefit ~~of financing the transfer of goods or services to the purchase customer~~. In those circumstances, the ~~contract-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-binding arrangement~~ or implied by the payment terms agreed to by the parties to the ~~contract-binding arrangement~~.

~~56-62.~~ 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 ~~purchase customer~~ would have paid for the promised goods or services if the ~~purchase customer~~ had paid cash for those goods or services when (or as) they transfer to the ~~purchase customer~~ (i.e., the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a ~~contract-binding arrangement~~ contains a financing component and whether that financing component is significant to the ~~contract-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 ~~purchase customer~~ and when the ~~purchase customer~~ pays for those goods or services; and
  - (ii) The prevailing interest rates in the relevant market.

~~57-63.~~ Notwithstanding the assessment in paragraph ~~62~~ ~~64~~, a ~~contract-binding arrangement~~ with a ~~purchase customer~~ would not have a significant financing component if any of the following factors exist:

- (a) The ~~purchase 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 ~~purchase customer~~.
- (b) A substantial amount of the consideration promised by the ~~purchase 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 ~~purchase 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 ~~purchase 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 ~~purchase customer~~ with protection from the other party



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failing to adequately complete some or all of its obligations under the ~~contract~~binding arrangement.

~~58-64.~~ 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 ~~the inception of the contract-binding arrangement~~inception, that the period between when the entity transfers a promised good or service to a ~~purchaser~~customer and when the ~~purchaser~~customer pays for that good or service will be one year or less.

~~59-65.~~ 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 ~~purchaser~~customer ~~at-at the inception of the contract-binding arrangement~~inception. That rate would reflect the credit characteristics of the party receiving financing in the ~~contract-binding arrangement~~, as well as any collateral or security provided by the ~~purchaser~~customer or the entity, including assets transferred in the ~~contract-binding arrangement~~. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the ~~purchaser~~customer would pay in cash for the goods or services when (or as) they transfer to the ~~purchaser~~customer. After ~~contract-the inception of the 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).

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

*Non-Cash Consideration*

~~60-67.~~ To determine the transaction price for ~~contracts-binding arrangements~~ in which a ~~customer~~purchaser promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

~~61-68.~~ 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-purchaser~~ (or class of ~~customer~~purchaser) in exchange for the consideration.

~~62-69.~~ 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~~purchaser). If the fair value of the non-cash consideration promised by a ~~customer~~purchaser 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 ~~57-56-59~~58.

~~63-70.~~ If a ~~customer-purchaser~~ contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's fulfilment of the ~~contract-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~~purchaser.



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*Consideration ~~p~~Payable to a ~~customer~~Purchaser*

~~64-71.~~ Consideration payable to a ~~customer-purchaser~~ includes cash amounts that an entity pays, or expects to pay, to the ~~customer-purchaser~~ (or to other parties that purchase the entity's goods or services from the ~~customer-purchaser~~). Consideration payable to a ~~customer-purchaser~~ also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the ~~customer-purchaser~~). An entity shall account for consideration payable to a ~~customer-purchaser~~ as a reduction of the transaction price and, therefore, of revenue unless the payment to the ~~customer-purchaser~~ is in exchange for a distinct good or service (as described in paragraphs ~~27-26-3130~~) that the ~~customer-purchaser~~ transfers to the entity. If the consideration payable to a ~~customer-purchaser~~ includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs ~~51-50-5958~~.

~~65-72.~~ If consideration payable to a ~~customer-purchaser~~ is a payment for a distinct good or service from the ~~customer-purchaser~~, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the ~~purchaser-customer~~ exceeds the fair value of the distinct good or service that the entity receives from the ~~purchaser-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 ~~purchaser-customer~~, it shall account for all of the consideration payable to the ~~purchaser-customer~~ as a reduction of the transaction price.

~~66-73.~~ Accordingly, if consideration payable to a ~~purchaser-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 ~~purchaser-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~~rice to ~~P~~erformance ~~-o~~Obligations ~~(Step 4)~~**

~~67-74.~~ **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 ~~purchaser-customer~~.**

~~68-75.~~ To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the ~~contract-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).

~~69-76.~~ Paragraphs ~~77-76-8786~~ do not apply if a ~~contract-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.

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*Allocation based on stand-alone selling prices*

~~70-77.~~ 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~~the inception of the binding arrangement of the distinct good or service underlying each performance obligation in the ~~contract~~binding arrangement and allocate the transaction price in proportion to those stand-alone selling prices.

~~74-78.~~ The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a ~~customer~~purchaser. 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~~purchasers. ~~A contractually~~In a binding arrangement, stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

~~72-79.~~ 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 ~~74~~73. When estimating a stand-alone selling price, an entity shall consider all information (including market conditions, entity-specific factors and information about the ~~purchaser~~customer or class of ~~purchaser~~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.

~~73-80.~~ 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 ~~purchaser~~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 ~~if applicable, then add~~ an appropriate margin for that good or service.

~~(b)~~(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~~binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph ~~79~~78, 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~~purchasers (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).

~~74-81.~~ 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~~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

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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 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 [78](#).

*Allocation of a ~~Discount~~*

[75-82.](#) A ~~purchase~~ 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 binding arrangement](#) exceeds the promised consideration in a [contract binding arrangement](#). Except when an entity has observable evidence in accordance with paragraph [83](#) that the entire discount relates to only one or more, but not all, performance obligations in a [contract binding arrangement](#), the entity shall allocate a discount proportionately to all performance obligations in the [contract 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.

[76-83.](#) An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the [contract 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 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\(b\)](#) is substantially the same as the discount in the [contract 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 binding arrangement](#) belongs.

[77-84.](#) If a discount is allocated entirely to one or more performance obligations in the [contract binding arrangement](#) in accordance with paragraph [83](#), 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\(c\)](#).

*Allocation of ~~Variable~~ ~~Consideration~~*

[78-85.](#) Variable consideration that is promised in a [contract binding arrangement](#) may be attributable to the entire [contract binding arrangement](#) or to a specific part of the [contract binding arrangement](#), such as either of the following:

- (a) One or more, but not all, performance obligations in the [contract 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

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paragraph\_23(b)22(b) (for example, the consideration promised for the second year of a two-year cleaning service contract-binding arrangement will increase on the basis of movements in a specified inflation index).

~~79-86.~~ 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-binding arrangement.

~~80-87.~~ The allocation requirements in ~~paragraphs 73~~ paragraphs\_74\_74-83 shall ~~84-84 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\_pPrice**

~~81-88.~~ After ~~contract-the inception of the 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.

~~82-89.~~ An entity shall allocate to the performance obligations in the contract-binding arrangement any subsequent changes in the transaction price on the same basis as at the inception of the contract binding arrangement~~inception~~. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after ~~contract-the inception of the 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.

~~83-90.~~ 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.

~~84-91.~~ An entity shall account for a change in the transaction price that arises as a result of a contractmodification to a binding arrangement~~modification~~ in accordance with paragraphs\_19\_18-2221. However, for a change in the transaction price that occurs after a contractmodification to a binding arrangement~~modification~~, an entity shall apply paragraphs\_88\_87-9089 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 contractbinding 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).

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- (b) In all other cases in which the modification was not accounted for as a separate ~~contract~~ binding arrangement in accordance with paragraph ~~2120~~, an entity shall allocate the change in the transaction price to the performance obligations in the modified ~~contract~~ binding arrangement (i.e. the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

## Binding Arrangement ~~contract~~ Costs

### Incremental Costs of Obtaining a ~~contract~~ Binding Arrangement

~~85-92.~~ An entity shall recognize as an asset the incremental costs of obtaining a ~~contract~~ binding arrangement with a ~~purchaser~~ customer if the entity expects to recover those costs.

~~86-93.~~ The incremental costs of obtaining a ~~contract~~ binding arrangement are those costs that an entity incurs to obtain a ~~contract~~ binding arrangement with a ~~purchaser~~ customer that it would not have incurred if the ~~contract~~ binding arrangement had not been obtained (for example, a sales commission).

~~87-94.~~ Costs to obtain a ~~contract~~ binding arrangement that would have been incurred regardless of whether the ~~contract~~ binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the ~~purchaser~~ customer regardless of whether the ~~contract~~ binding arrangement is obtained.

~~88-95.~~ As a practical expedient, an entity may recognize the incremental costs of obtaining a ~~contract~~ 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 ~~contract~~ Binding Arrangement

~~89-96.~~ If the costs incurred in fulfilling a ~~contract~~ binding arrangement with a ~~purchaser~~ customer are not within the scope of another 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~~ binding arrangement only if those costs meet all of the following criteria:

- (a) The costs relate directly to a ~~contract~~ binding arrangement or to an anticipated ~~contract~~ binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing ~~contract~~ binding arrangement or costs of designing an asset to be transferred under a specific ~~contract~~ 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.

~~90-97.~~ For costs incurred in fulfilling a ~~contract~~ binding arrangement with a ~~purchaser~~ customer that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

~~91-98.~~ Costs that relate directly to a ~~contract~~ binding arrangement (or a specific anticipated ~~contract~~ binding arrangement) include any of the following:

- (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to the ~~purchaser~~ customer);

**Commented [AD5]:** IFRS 15, *Revenue from Contracts with Customers* was issued in May 2014. IFRS 16, *Leases* was subsequently issued in January 2016. IFRS 16 amended the Scope and Binding Arrangement Costs (Paragraphs 5 and 97 respectively) and Repurchase Agreements (paragraphs B66 and B90) of IFRS 15.

This [draft] Standard is drawn from the amended IFRS 15. The IPSASB has a project in place, Exposure Draft (ED) 64, *Leases* to replace IPSAS 13, *Leases*. Any reference in this [draft] Standard to ED 64 shall be read as a reference to IPSAS 13, *Leases*.

Staff updated the [draft] Standard to the equivalent paragraphs that were amended in IFRS 15.

#### Question for the Board

Does the Board agree with the staff view?

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

**Commented [AD6]:** This section was removed because any reference in this [draft] Standard to ED 64 shall be read as a reference to IPSAS 13, *Leases*.

**Question for the Board**  
Does the Board agree with the staff view?

92-99. An entity shall recognize the following costs as expenses when incurred:

- (a) General and administrative costs (unless those costs are explicitly chargeable to the purchaser/customer under the binding arrangement/contract, in which case an entity shall evaluate those costs in accordance with paragraph 98-97);
- (b) Costs of wasted materials, labor or other resources to fulfil the contract-binding arrangement that were not reflected in the price of the contract-binding arrangement;
- (c) Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract-binding arrangement (i.e., costs that relate to past performance); and
- (d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

**Amortization and impairment**

93-100. An asset recognized in accordance with paragraph 92-94 or 96-95 shall be amortised/amortized on a systematic basis that is consistent with the transfer to the purchaser/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-binding arrangement (as described in paragraph 96(a)95(a)).

94-101. An entity shall update the amortisation/amortization to reflect a significant change in the entity's expected timing of transfer to the purchaser/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.

95-102. 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).

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~~96-103.~~ For the purposes of applying paragraph ~~102-104~~ 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 ~~57-56-5958-5959 on~~ constraining estimates of variable consideration) and adjust that amount to reflect the effects of the ~~purchasereustomer's~~ credit risk.

~~97-104.~~ Before an entity ~~recognises~~~~recognizes~~ an impairment loss for an asset ~~recognised~~~~recognized~~ in accordance with paragraph ~~92-91-92 92 or-9695~~, the entity shall ~~recognise~~~~recognize~~ any impairment loss for assets related to the ~~contract-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 ~~102-104~~, an entity shall include the resulting carrying amount of the asset ~~recognised~~~~recognized~~ in accordance with paragraph ~~92-91-92 92 or-9695-in-9696 in~~ the carrying amount of the cash-generating unit to which it belongs for the purpose of applying ~~IAS-IPSAS 236~~. *Impairment of Cash-Generating Assets* to that cash-generating ~~unit~~~~unit~~.

~~98-105.~~ 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 ~~102-104~~ 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

~~99-106.~~ When either party to a ~~contract-binding arrangement~~ has performed, an entity shall present the ~~contract-binding arrangement~~ in the statement of financial position as a ~~binding arrangement asset~~~~contract-asset~~ or a ~~binding arrangement liability~~~~contract liability~~, depending on the relationship between the entity's performance and the ~~purchasereustomer's~~ payment. An entity shall present any unconditional rights to consideration separately as a receivable.

~~100-107.~~ If a ~~purchaserecustomer~~ 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 ~~purchaserecustomer~~, the entity shall present the ~~contract-binding arrangement~~ as a ~~binding arrangement liability~~~~contract liability~~ when the payment is made or the payment is due (whichever is earlier). A ~~binding arrangement liability~~~~contract liability~~ ~~is is~~ an entity's obligation to transfer goods or services to a ~~purchaserecustomer~~ for which the entity has received consideration (or an amount of consideration is due) from the ~~purchaserecustomer~~.

~~101-108.~~ If an entity performs by transferring goods or services to a ~~purchaserecustomer~~ before the ~~purchaserecustomer~~ pays consideration or before payment is due, the entity shall present the ~~contract-binding arrangement~~ as a ~~binding arrangement asset~~~~contract-asset~~, excluding any amounts presented as a receivable. A ~~binding arrangement asset~~~~contract-asset~~ is an entity's right to consideration in exchange for goods or services that the entity has transferred to a ~~purchaserecustomer~~. An entity shall assess a ~~binding arrangement asset~~~~contract-asset~~ for impairment in accordance with ~~IFRS-9~~~~IPSAS 41~~. An impairment of a ~~a~~~~a~~ ~~binding arrangement asset~~~~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)~~~~113(b)~~).

~~102-109.~~ 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



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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/PSAS 41](#). Upon initial recognition of a receivable from a ~~contract~~[binding arrangement](#) with a ~~purchaser~~[customer](#), any difference between the measurement of the receivable in accordance with [IFRS 9/PSAS 41](#) and the corresponding amount of revenue ~~recognised~~[recognized](#) shall be presented as an expense (for example, as an impairment loss).

~~403.110.~~ This [\[draft\]](#) Standard uses the terms '[binding arrangement asset](#)' '~~contract-asset~~' and '~~binding arrangement liability~~'[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~~[contract-asset](#), the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and ~~binding arrangement assets~~[contract-assets](#).

## Disclosure

~~404.111.~~ 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~~[binding arrangements](#) with ~~customers~~[purchasers](#). To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- (a) Its ~~contracts—binding arrangements~~ with ~~customers—purchasers~~ (see paragraphs ~~114–123~~);
- (b) The significant judgements, and changes in the judgements, made in applying this [\[draft\]](#) Standard to those ~~contracts~~[binding arrangements](#) (see paragraphs ~~124, 123–127~~[126](#)); and
- (c) Any assets ~~recognised~~[recognized](#) from the costs to obtain or fulfil a ~~contract~~[binding arrangement](#) with a ~~purchaser~~[customer](#) in accordance with paragraph ~~929~~[924](#) ~~or 969~~[5](#) (see paragraphs ~~128, 127–129~~[128](#)).

~~405.112.~~ 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.

~~406.113.~~ An entity need not disclose information in accordance with this [\[draft\]](#) Standard if it has provided the information in accordance with another Standard.

## Binding Arrangements ~~contracts~~ with ~~Customers~~[Purchasers](#)

~~407.114.~~ 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—binding arrangements~~ with ~~customers~~[purchasers](#), which the entity shall disclose separately from its other sources of revenue; and
- (b) Any impairment losses ~~recognised~~[recognized](#) (in accordance with [IFRS 9/PSAS 41](#)) on any receivables or ~~binding arrangement assets~~[contract-assets](#) arising from an entity's



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~~contracts~~binding arrangements with ~~customers~~purchasers, which the entity shall disclose separately from impairment losses from ~~other contracts~~other binding arrangements.

*Disaggregation of ~~R~~revenue*

~~108~~115. An entity shall disaggregate revenue ~~recognised~~recognized from ~~contracts~~binding arrangements with ~~customers~~purchasers 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 ~~AG136~~B87–~~AG138~~B89 when selecting the categories to use to disaggregate revenue.

~~109~~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 ~~Binding Arrangement~~ - ~~B~~balances*

~~110~~117. An entity shall disclose all of the following:

- (a) The opening and closing balances of receivables, ~~binding arrangement assets~~contract assets—~~and~~ ~~binding arrangement liabilities~~contract liabilities from ~~contracts~~binding arrangements with ~~customers~~purchasers, if not otherwise separately presented or disclosed;
- (b) Revenue ~~recognised~~recognized in the reporting period that was included in the ~~binding arrangement liability~~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).

~~111~~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~~binding arrangement asset and the ~~contract liability~~binding arrangement liability balances. The explanation provided may use qualitative information.

~~112~~119. An entity shall provide an explanation of the significant changes in the ~~binding arrangement asset~~contract asset and the ~~binding arrangement liability~~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~~contract assets and ~~binding arrangement liabilities~~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~~contract asset or ~~binding arrangement liability~~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~~modification to a binding arrangement~~modification~~;
- (c) Impairment of a ~~binding arrangement asset~~contract asset;

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- (d) A change in the time frame for a right to consideration to become unconditional (i.e. for a binding arrangement asset-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-contract-liability).

*Performance- Obligations*

~~113.~~120. An entity shall disclose information about its performance obligations in contracts binding arrangements with customerspurchasers, 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 contractbinding 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 Price Allocated to the Remaining Performance- Obligations*

~~114.~~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.

~~115.~~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 contractbinding arrangement that has an original expected duration of one year or less; or
- (b) The entity recogniserecognizes revenue from the satisfaction of the performance obligation in accordance with paragraph AG59B46.

~~116.~~123. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 122121 and whether any consideration from contracts-binding arrangements with customers-purchasers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 121120. For example, an estimate of the

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transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs ~~57, 56–59~~<sup>58</sup>).

**Significant Judgements in the Application of this [draft] Standard**

~~117, 124.~~ <sup>117, 124.</sup> 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-binding arrangements~~ with ~~customers~~<sup>purchasers</sup>. 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~~<sup>125, 126</sup>); and
- (b) The transaction price and the amounts allocated to performance obligations (see paragraph ~~127~~<sup>126</sup>).

*Determining the Timing of Satisfaction of Performance Obligations*

~~118, 125.~~ <sup>118, 125.</sup> For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

- (a) The methods used to ~~recognise~~<sup>recognize</sup> 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.

~~119, 126.~~ <sup>119, 126.</sup> For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a ~~purchaser~~<sup>customer</sup> obtains control of promised goods or services.

*Determining the Transaction Price and the Amounts Allocated to Performance Obligations*

~~120, 127.~~ <sup>120, 127.</sup> 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-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 Binding Arrangement with a Purchaser/customer**

~~124, 128.~~ <sup>124, 128.</sup> 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-binding arrangement~~ with a ~~purchaser~~<sup>customer</sup> (in accordance with paragraph ~~92, 94 or 96~~<sup>95</sup>); and

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

~~122.~~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-binding arrangement~~ with a ~~purchaser~~customer (in accordance with paragraph ~~92~~94 or ~~96~~95), by main category of asset (for example, costs to obtain ~~contracts~~binding arrangements with ~~customers~~purchasers, ~~pre-contract—pre-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

~~123.~~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-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 – 140:

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

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

- (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 136; or
- (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 138 – 140.

135. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this

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[draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 134(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

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

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

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

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

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

(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 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 binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

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

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

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

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

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

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

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

Withdrawal of Other Standards

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

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

## Appendix A

### Application Guidance

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

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

- (a) Core principle of [draft] IPSAS [X] (ED XX) (paragraphs AG2 - AG19);
- (b) Identifying the Binding Arrangement (paragraphs AG20 - AG28);
- (c) Performance Obligations Satisfied Over Time (paragraphs AG45 - AG56);
- (d) Methods for measuring progress towards complete satisfaction of a performance obligation (paragraphs AG57 - AG62);
- (e) Sale with a right of return (paragraphs AG63 - AG70);
- (f) Warranties (paragraphs AG71 - AG76);
- (g) Principal versus agent considerations (paragraphs AG77 - AG85);
- (h) Customer—Purchaser options for additional goods or services (paragraphs AG86 - AG90);
- (i) Customers'—Purchasers' unexercised rights (paragraphs AG91 - AG94);
- (j) Non-refundable upfront fees (and some related costs) (paragraphs AG95 - AG98);
- (k) Licensing (paragraphs AG99 - AG112);
- (l) Repurchase agreements (paragraphs AG113 - AG125);
- (m) Consignment arrangements (paragraphs AG126 - AG127);
- (n) Bill-and-hold arrangements (paragraphs AG128 - AG131);
- (o) Customer—Purchaser acceptance (paragraphs AG132 - AG135); and
- (p) Disclosure of disaggregated—Disaggregated revenue—Revenue (paragraphs AG136 - AG138).

### Scope Core principle of [draft] IPSAS [X] (ED XX) (see paragraphs 5 – 8)

AG2. The core principle of the [draft] IPSAS [X] (ED XX) is that an entity shall recognize revenue to depict the transfer of promised goods or services to purchasers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

AG3. Therefore, [draft] IPSAS [X] (ED XX) focuses on an entity transferring goods and services to satisfy a performance obligation in a binding arrangement with a purchaser.

AG4. An entity recognizes revenue in accordance with that core principle by applying the following steps:

- (a) Step 1: Identifying the binding arrangement with a purchaser;
- (b) Step 2: Identifying the performance obligations;
- (c) Step 3: Determining the transaction price;
- (d) Step 4: Allocating the transaction price to performance obligations; and

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(e) Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

AG5. Steps 1, 2 and 5 relate primarily to the recognition of revenue, while steps 3 and 4 are more closely related to the measurement of revenue.

Binding Arrangements

AG6. [draft] IPSAS [X] (ED XX) is underpinned by the definition of binding arrangements, as rights and obligations are created by contract (law) and other statutory mechanisms enforceable by legal or equivalent means. There are jurisdictions where government and public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect.

AG7. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a binding arrangement for purposes of this [draft] IPSAS [X] (ED XX). Binding arrangements, for the purposes of this [draft] IPSAS [X] (ED XX), are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- (a) The terms of the binding arrangement create rights and obligations for the parties;
- (b) The remedy for non-performance may be enforceable by law or other mechanisms; and
- (c) The arrangements may arise from contracts or through other legal means, such as statutory mechanisms.

Enforceability

AG8. One of the key characteristics of a binding arrangement is that the agreement creates enforceable rights and obligations through legal or equivalent means. Paragraph 11 states that factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system.

AG9. Contracts which are a subset of a binding arrangement are enforceable via legal means. However, in the public sector, some entities are not able to contract in their own right but may enter in binding arrangements. To be within the scope of this [draft] IPSAS the rights and obligations in these arrangements must be enforceable by equivalent means.

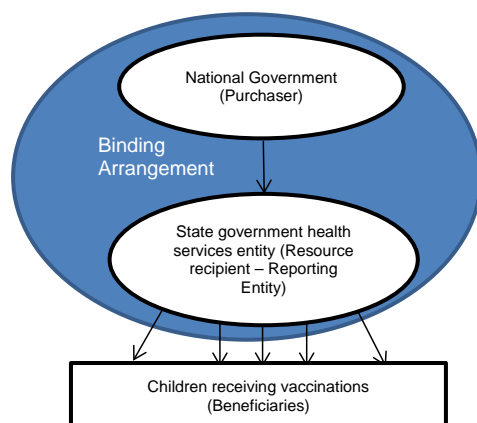
AG10. If an arrangement is not enforceable it does not meet the definition of a binding arrangement, and is outside the scope of this [draft] Standard (see updated IPSAS 23).

AG11. Enforceability mechanisms by equivalent means may take many forms and maybe jurisdictionally specific. But a key factor is that either the purchaser or a separate entity must be able to enforce the binding arrangement. The purchaser or a separate entity must have the ability and authority to compel the entity to fulfil the promises established within the agreement or to seek redress should those promises not be fulfilled.

AG12. Tripartite (three-party) arrangements are common in the public sector – purchaser, resource recipient (reporting entity in this [draft] Standard) and beneficiaries. It is important to recognize that in these tripartite arrangements the beneficiaries do not have any rights to force the entity to deliver goods and services because they are not a party to the binding arrangement. In these tripartite arrangements the resource recipient (reporting entity) is not an agent of the purchaser because the resource recipient gains control of the consideration from the purchaser and is responsible for providing goods or services to the beneficiaries. This relationship is illustrated in the following diagram.



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- AG13. Enforcement mechanisms by equivalent means may arise from statutory or administrative arrangements that may create enforceable rights and obligations on the parties to the agreement including:
- (a) Legislation and Executive Authority; and
  - (b) Reduction of future funding.
- AG14. Enforcement mechanisms that are subsets of legislation may include cabinet and ministerial directives and sovereign rights. Cabinet and Ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example a directive given by a Minister or government department to an entity controlled by the government to transfer goods or services may be enforceable.
- AG15. Sovereign rights (the ability to make amend and repeal legal provisions) on their own are not a valid enforcement mechanism – that is the power and existence of such rights. However if the use of sovereign rights were detailed in the binding arrangement as a means of enforcement this may result in a legislative enforcement mechanism.
- AG16. In general the 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 obligation on the purchaser to provide such funding. However, the entity was presently entitled to funding in the future (through another binding arrangement) then this could be considered a valid enforcement mechanism.
- AG17. When determining if a reduction of future funding would be an enforcement mechanism the entity must make a judgement based on the facts and circumstances. For example the purchaser's ability to reduce future funding, their past history of doing so, or the likelihood that they would do so in reference to the binding arrangement. Although past history of enforcement of similar agreements is a good indicator that a purchaser may enforce an arrangement by the threat of a reduction of future funding, non-enforcement of similar agreements does not affect the enforceability of future agreements, the key factor is that the purchaser has the ability to enforce its rights.
- AG18. A statement of intent or public announcement for a purchaser (e.g. government) to spend money or deliver goods and services in a certain way is not an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a

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binding arrangement between a purchaser and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive obligation) under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Purchaser

AG19. For public sector specific transactions the purchaser is the party that pays consideration for the goods and services agreed to within a binding arrangement, but is not necessarily the party that receives those goods and services. The delivery of public services often involves three parties. In these three-party (tripartite) arrangements, the purchaser has a binding arrangement with and pays consideration to the entity to deliver public services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over 55, the central government is the purchaser and the citizens are the beneficiary of the service. The purchaser can also enforce delivery of those goods and services or seek recourse if the promises in the binding arrangement were not be fulfilled.

Recognition (see paragraphs 10 - 46)

Identifying the Binding Arrangement (see paragraph 10)

Economic Substance

AG20. 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.

AG21. For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The results of these analyses may be clear without an entity having to perform detailed calculations.

AG22. For the purposes of this [draft] Standard, economic substance includes commercial substance.

Probability of Revenue Recognition (see paragraphs 10(a) - 10(e))

AG23. An entity shall account for a binding arrangement with a purchaser that is within the scope of this IPSAS [X] (ED XX) only when all of the criteria in in paragraphs 10(a) - 10(e) are met. The criteria in paragraphs 10(a) - 10(e) of the [draft] IPSAS [X] (ED XX) forms part of Step 1: *Identifying the binding arrangement(s) with a purchaser*. Paragraph 10(e) is part of the requirements in paragraph 10. Paragraph 10(e) states that a binding arrangement is valid or exits when it is probable to collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser.

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AG24. This criterion acts like a collectability threshold and assesses the purchaser's credit risk in order to identify the validity of a binding arrangement. The purchaser's credit risk is the ability and intention of the purchaser to pay the promised consideration. The probability criterion is assessed at the inception of the binding arrangement. This assessment is for the purposes of recognition and does not impact measurement or the presentation of revenue.

AG25. The collectability of revenue is a key component of the initial recognition of revenue in IFRS 15, *Revenue from Contracts with Customers*. Where the customer does not have the ability or the intention to pay the transaction price, IFRS 15 requires revenue to be recognized only to the extent that collection is expected. The population of transactions that would fail to meet the probability criterion in the private sector at the inception of the contract is small. The underlying assumption in IFRS 15 is that collectability of consideration from customers is usually not an issue for the private sector because:

- (a) Most entities would not enter into a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration; and
- (b) Most private sector entities will generally not enter into a contract with a customer if the entity does not consider it to be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

AG26. The IPSASB acknowledged that assessing the probability criterion for certain binding arrangements with purchasers is an issue for the public sector in some jurisdictions. Some public sector entities are required to provide certain goods and services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of credit risk.

AG27. The IPSASB also acknowledged that public sector entities may enter into numerous binding arrangements where collectability of the consideration is not probable. Some jurisdictions recognize the full amount of revenue transactions from such binding arrangements at the inception and assess the collectability of consideration separately as a subsequent measurement issue.

AG28. Staff propose the following approaches to be followed by jurisdictions:

- (a) Option 1: *Retain guidance in IFRS 15*: This approach is similar to that prescribed in IFRS 15 and IPSAS 9, *Revenue from Exchange Transactions*. If a binding arrangement with a purchaser does not meet the criteria in paragraph 10, then the arrangement is not a revenue transaction. If an arrangement does not meet all the criteria at the outset, such binding arrangements need to be retested to assess if all the criteria is subsequently met. Entities may only land up recognizing revenue when it receives the cash (see paragraphs 10 – 17); or
- (b) Option 2: *Public Sector Approach*: This approach proposes that at inception of the binding arrangements whose consideration is not probable, public sector entities may recognize the full amount of revenue from such binding arrangements and analyze collectability and impairment subsequently.

**Identifying a performance obligation in a binding arrangement**

AG29. This [draft] IPSAS requires revenue to be recognized when a performance obligation is fulfilled, therefore a performance obligation is a unit of account for recognition and a key element to applying this [draft] Standard.

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AG30. Paragraphs 23 requires an entity to identify any performance obligations when a binding arrangement is entered into (Step 2 of the revenue recognition model). A performance obligation is defined as a promise [by the entity] in a binding arrangement with a purchaser to transfer to the purchaser either:

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

AG31. The key features of this definition is that goods and services must be distinct and there must be a transfer of these goods and services. If goods or services (or a bundle of goods or services) are not transferred and/or are not distinct the transaction is outside the scope of this Standard (refer to [updated] IPSAS 23).

*Distinct goods and services*

AG32. A good or service promised in a binding arrangement is distinct if the following two criteria are both met (paragraph 28):

- (a) The purchaser 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 purchaser (i.e. the good or service is capable of being distinct). A purchaser can benefit or receive service potential from the good or service transferred to a beneficiary where the transfer of the good or service to the beneficiary contributes to the purchaser achieving its service objectives; and
- (b) The entity's promise to transfer the good or service to the purchaser is separately identifiable from other promises in the binding arrangement (i.e. the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG33. That is, not only the goods and services in a promise must be distinct but also the promises within a binding arrangement must be distinct (separately identifiable) from other promises within the same binding arrangement. Therefore, it is possible to have several performance obligations within one binding arrangement.

AG34. To illustrate, a binding arrangement between Entity A and Entity B may have several promises, each of them distinct and separately identifiable from the others but within those promises the goods and services may or may not be distinct. Goods and services that are not distinct within a promise are bundled together until that bundle is distinct. The diagram below illustrates how one binding arrangement could have three separately identifiable promises to deliver goods and services.

**Binding Arrangement between Entity A and Entity B – Entity A provides 120,000CU funding for Entity B to:**

**Promise 1**

- Build 4 wells in Village X to provide clean drinking water for the villagers to use - 10,000CU per well

**Promise 2**

- Develop software to allow the village administrators to monitor the quality of water of the drinking wells - 75,000CU

**Promise 3**

- Provide vaccinations to the 1,000 children of Village X - 5CU per vaccine

AG35. The first promise in this binding arrangement is that Entity B will build four wells to provide drinking water at Village X. To build each well a number of goods and services will be required (labor, building materials, design etc.) each of which are capable of being distinct in their own right. However, the promise from Entity B to Entity A is to deliver fully functioning wells, therefore each of these individual goods and services must be bundled to create a single performance obligation.

AG36. Further because each well can be used independently of the other this promise has four performance obligations and revenue would be recognized as each well is completed.

AG37. The second promise is for Entity B to develop software to monitor the drinking well's water quality. Again this may involve the bundling of goods and services such as labor and technical knowhow. Revenue would be recognized when this software was completed, tested and functioning.

AG38. Finally the third promise in this binding arrangement is to vaccinate 1000 children of Village X. This promise represents a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the purchaser (paragraph 23(b)). Therefore, this promise, although it could be argued to be 1,000 separate performance obligations, is treated as one performance obligation and revenue is recognized over time. Further guidance on performance obligations satisfied over time can be found at paragraphs AG45 – AG56.

AG39. To contrast if Entity A entered into an agreement to Entity B to provide funding for the general operations of the Administrative office for Village X, there are no distinct goods or services promised within the agreement and therefore this transaction is outside the scope of this [draft] Standard.

Transfer of Goods and Services

AG40. The second requirement of a performance obligation is that there must be a transfer of goods and services to the purchaser or, in the public sector, a beneficiary. If there is no transfer of good or services the transaction is outside the scope of this Standard (refer to [updated] IPSAS 23).

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

AG42. Paragraph 34 provides indicators of control which include:

- (a) The ability to direct the use of obtain substantially of the remaining benefits or service potential of the asset; and
- (b) The ability to prevent others from directing or using the benefits or service potential of the asset.

AG43. Each of the examples above in paragraphs AG35 – AG38 result in a transfer of goods and services from Entity B to the beneficiaries (the villagers).

AG44. An example of an arrangement that would not satisfy this requirement to transfer goods or services may be if Entity A (purchaser) provides funding to Entity B to undertake a particular research program but there is no requirement for Entity B to provide any intellectual property generated from the research to either Entity A or a beneficiary.

**Performance Obligations Satisfied Over Time (see paragraph 36)**

AG2. AG45. B2 In accordance with paragraph 35, a performance obligation is satisfied over time if one of the following criteria is met:

- (a) The purchaser/customer simultaneously receives and consumes the benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG46 – AG47);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser/customer controls as the asset is created or enhanced (see paragraph AG48); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG49 – AG51) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG52 – AG56).

Simultaneous Receipt and Consumption of the Benefits or Service Potential of the Entity's Performance

AG46. For some types of performance obligations, in accordance with paragraph 36(a), the assessment of whether a purchaser/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 purchaser/customer of the benefits or service potential of the entity's performance can be readily identified.

AG47. For other types of performance obligations, an entity may not be able to readily identify whether a purchaser/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 purchaser/customer. In determining whether

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another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

- (a) Disregard potential ~~restrictions or practical limitations in the contractual or other binding arrangement~~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.

*Purchaser Controls the Asset as it is Created or Enhanced*

AG3-AG48. In determining whether a customer purchaser 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 (see paragraph 36(c))*

AG4-AG49. In assessing whether an asset has an alternative use to an entity in accordance with paragraph 36(c) and 37, an entity shall consider the effects of ~~contractual restrictions and practical limitations in the 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 purchaser~~. The possibility of the ~~contract binding arrangement~~ with the customer purchaser being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG5-AG50. A ~~contractual or other restriction in the 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 restriction in the binding arrangement~~ restriction is substantive if a customer purchaser could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a ~~restriction in the 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 purchaser customer without breaching the ~~contract or other binding arrangement~~ binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that ~~contract or other binding arrangement~~ binding arrangement.

AG6-AG51. 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 purchaser customer or are located in remote areas.

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

AG7-AG52. In accordance with paragraph 36(c) and 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 purchaser customer or another party terminates the ~~contract or other binding~~

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~~arrangement~~binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the total cost of the goods and services transferred to date for no charge or for a nominal charge, or 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~~deficit of profit-surplus if the ~~contract or other binding arrangement~~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~~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 ~~binding arrangement~~binding arrangement that reasonably reflects the extent of the entity's performance under the ~~binding arrangement~~contract or other binding arrangement before termination by the ~~purchaser~~customer (or another party); ~~or~~or
- (b) A reasonable return on the entity's cost of capital for similar ~~contracts or other binding arrangements~~binding arrangements (or the entity's typical operating margin for similar ~~contracts or other binding arrangements~~binding arrangements) if the specific margin of the binding arrangement~~contract or other binding arrangement~~ specific margin is higher than the return the entity usually generates from similar ~~binding arrangements~~contracts or other binding arrangements.

AG53. 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 arrangements~~ were to be terminated before completion for reasons other than the entity's failure to perform as promised.

AG54. In some ~~contracts or other binding arrangements~~, a ~~purchaser~~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 ~~purchaser~~customer might not have any right to terminate the ~~contract or other binding arrangement~~. If a ~~purchaser~~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 ~~purchaser~~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 ~~purchaser~~customer the goods or services promised in the ~~contract or other binding arrangement~~ and require the ~~purchaser~~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 ~~purchaser~~customer to perform its obligations (which include paying the promised consideration).

AG8-AG55. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the ~~terms of the contractual or other binding arrangement~~binding arrangement terms as well as any legislation or legal precedent that could supplement or override those ~~terms of the binding arrangement~~contractual or other binding arrangement terms. This would include an assessment of whether:



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- (a) Legislation, administrative practice or legal precedent confers upon the entity a right to payment for performance to date even though that right is not specified in the binding arrangement~~contract or other binding arrangement~~ with the purchaser~~customer~~;
- (b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar binding arrangements~~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 binding arrangements~~contracts or other binding arrangements~~, an entity would continue to have a right to payment to date if, in the binding arrangement~~contract or other binding arrangement~~ with the purchaser~~customer~~, its right to payment for performance to date remains enforceable.

AG9-AG56. The payment schedule specified in a binding arrangement~~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 binding arrangement~~contract or other binding arrangement~~ specifies the timing and amount of consideration that is payable by a purchaser~~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 binding arrangement~~contract or other binding arrangement~~ could specify that the consideration received from the purchaser~~customer~~ is refundable for reasons other than the entity failing to perform as promised in the binding arrangement~~contract or other binding arrangement~~.

**Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation**  
**(see paragraphs 36 – 38)**

AG10-AG57. 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 0 – AG60); and
- (b) Input ~~methods~~ (see paragraphs AG61 – AG62).

*Output Methods*

AG11-AG58. Output methods recognize revenue on the basis of direct measurements of the value to the purchaser~~customer~~ of the goods or services transferred to date relative to the remaining goods or services promised under the ~~contract or other binding arrangement~~binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the purchaser~~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

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finished goods controlled by the purchasercustomer that are not included in the measurement of the output.

AG12-AG59. As a practical expedient, if an entity has a right to consideration from a purchasercustomer in an amount that corresponds directly with the value to the purchasercustomer of the entity's performance completed to date (for example, a service contract or other binding arrangement binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

AG13-AG60. 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*

AG14-AG61. 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.

AG15-AG62. 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 purchasercustomer. 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 purchasercustomer. 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 binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the performance obligation).
- (b) When a cost incurred is not proportionate to the entity's progress in satisfying the performance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a performance obligation if the entity expects at the inception of the contract or other binding arrangement binding arrangement inception that all of the following conditions would be met:
  - (i) The good is not distinct;
  - (ii) The purchasercustomer is expected to obtain control of the good significantly before receiving services related to the good;
  - (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and

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

#### Sale with a Right of Return

~~AG16-AG63.~~ In some ~~contracts or other binding arrangements~~ binding arrangements, an entity transfers control of a product to a ~~purchaser~~ customer and also grants the ~~purchaser~~ 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.

~~AG17-AG64.~~ 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~~ purchasers on settling the refund liability.

~~AG18-AG65.~~ 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.

~~AG19-AG66.~~ 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~~ purchasers 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.

~~AG20-AG67.~~ 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).

~~AG21-AG68.~~ An asset recognized for an entity's right to recover products from a ~~purchaser~~ 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~~.

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**AG22-AG69.** Exchanges by ~~customers~~ purchasers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this ~~[draft]~~ [draft] Standard.

**AG23-AG70.** ~~Contracts or other binding~~ Binding arrangements—arrangements in which a purchasereustomer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG71 – AG76.

#### **Warranties**

**AG24-AG71.** It is common for an entity to provide (in accordance with the ~~contract or other binding arrangement~~ 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—sectors and binding arrangements contracts or other binding arrangements. Some warranties provide a purchasereustomer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the purchasereustomer with a service in addition to the assurance that the product complies with agreed-upon specifications.

**AG25-AG72.** If a purchasereustomer 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 purchasereustomer in addition to the product that has the functionality described in the ~~binding arrangement~~ 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.

**AG26-AG73.** If a purchasereustomer does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with ~~IPSAS 19 IAS 37~~ IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets unless the promised warranty, or a part of the promised warranty, provides the purchasereustomer with a service in addition to the assurance that the product complies with agreed-upon specifications.

**AG27-AG74.** In assessing whether a warranty provides a purchasereustomer 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 purchasers from the risk of purchasing defective products.
- (b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.
- (c) The nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation.

**AG28-AG75.** If a warranty, or a part of a warranty, provides a purchasereustomer with a service in addition to the assurance that the product complies with agreed-upon specifications, the

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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.

AG29-AG76. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer (such as government medical laboratory) might sell products (such as diagnostic ultrasound scanners to both government-owned and privately owned medical centers and hospitals) in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a consumer purchaser using a product for its intended purpose. Similarly, an entity's promise to indemnify the purchasercustomer 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 IAS 37/PSAS 19/PSAS 19.

### Principal versus Agent Considerations

AG77. When another party is involved in providing goods or services to a purchasercustomer, 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 purchasercustomer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchasercustomer (see paragraphs 28 – 31). If a contract or other binding arrangementbinding arrangement with a purchasercustomer 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.

AG30-AG78. To determine the nature of its promise (as described in paragraph AG77), the entity shall:

- (a) Identify the specified goods or services to be provided to the purchasercustomer (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 purchasercustomer.

AG31-AG79. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchasercustomer. 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 purchasercustomer. 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.

AG32-AG80. When another party is involved in providing goods or services to a purchasercustomer, 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 purchasercustomer.
- (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 purchasercustomer on the entity's behalf.

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- (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 purchasercustomer. 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 purchasercustomer has ~~contracted or entered into a other-binding-arrangements~~binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchasercustomer. 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.

AG33-AG81. When (or as) an entity that is a principal satisfies a performance ~~obligation~~, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG82. An entity is an agent if the entity's performance ~~obligation~~ is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchasercustomer. 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.

AG34-AG83. Indicators that an entity controls the specified good or service before it is transferred to the purchasercustomer (and is therefore a principal (see paragraph AG79) include, but are not limited to, the following:

- (a) The entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting specifications of the purchasercustomer ~~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 purchasercustomer or after transfer of control to the purchasercustomer (for example, if the purchasercustomer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a ~~binding arrangementcontract or other-binding-arrangement~~ with a purchasercustomer, 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~~service potential from, the good or service before it is transferred to the purchasercustomer.
- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the purchasercustomer 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~~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

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additional revenue from its service of arranging for goods or services to be provided by other parties to ~~customers~~purchasers.

~~AG35-AG84.~~ The indicators in paragraph AG83 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the ~~binding arrangement~~contract or other binding arrangement. In addition, different indicators may provide more persuasive evidence in different ~~binding arrangements~~contracts or other binding arrangements.

~~AG85.~~ If another entity assumes the entity's performance obligations and ~~contractual or other binding arrangement~~ rights in the ~~binding arrangement~~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 ~~purchaser~~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 ~~binding arrangement~~contract or other binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Measurement (see paragraphs 47- 91)

Customer~~Purchaser~~ Options for Additional Goods or Services

~~AG36-AG86.~~ ~~Customer~~Purchaser options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, ~~purchaser~~customer award credits (or points), ~~contract or other binding arrangement~~ renewal options to a binding arrangement or other discounts on future goods or services.

~~AG37-AG87.~~ If, in a ~~binding arrangement~~contract or other binding arrangement, an entity grants a ~~purchaser~~customer the option to acquire additional goods or services, that option gives rise to a performance obligation in the ~~binding arrangement~~contract or other binding arrangement only if the option provides a material right to the ~~purchaser~~customer that it would not receive without entering into that ~~binding arrangement~~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 ~~purchaser~~customer in that geographical area or market). If the option provides a material right to the ~~purchaser~~customer, the ~~purchaser~~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.

~~AG38-AG88.~~ If a ~~purchaser~~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 ~~purchaser~~customer with a material right even if the option can be exercised only by entering into a previous ~~binding arrangement~~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]~~[draft] Standard only when the ~~purchaser~~customer exercises the option to purchase the additional goods or services.

~~AG39-AG89.~~ 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 ~~purchaser~~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 ~~purchaser~~customer would obtain when exercising the option, adjusted for both of the following:

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



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

**AG40-AG90.** If a purchasercustomer has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangementcontract or other binding arrangement and are provided in accordance with the terms of the original binding arrangementcontract 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 renewals of a binding arrangementcontract or other binding arrangement renewals.

**Customers' Purchasers' Unexercised Rights**

**AG41-AG91.** In accordance with paragraph 107, upon receipt of a prepayment from a purchasercustomer, an entity shall recognize a binding arrangement liabilitybinding 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 liabilitybinding arrangement liability or contract liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.

**AG42-AG92.** A purchasercustomer's non-refundable prepayment to an entity gives the purchasercustomer 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-purchasers may not exercise all of their rights in the binding arrangementcontractual or other binding arrangement rights. Those unexercised rights are often referred to as breakagebreakage.

**AG43-AG93.** If an entity expects to be entitled to a breakage amount in a binding arrangement liabilitybinding 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 purchasercustomer. 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 purchasercustomer 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.

**AG44-AG94.** An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a purchasercustomer'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)**

**AG45-AG95.** In some binding arrangementcontracts or other binding arrangements, an entity charges a purchasercustomer a non-refundable upfront fee at or near the inception of the binding arrangementcontract or other binding arrangement inception. Examples include joining fees in for a health club-care membership contracts or other binding arrangements, activation fees in from telecommunication companies, contracts or other binding arrangements, setup fees in for some certain services contracts or other binding arrangements and initial fees in for some supply iescontracts or other binding arrangements.



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**AG46-AG96.** To identify performance obligations in such ~~binding arrangements 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 ~~the inception of the binding arrangement contract or other binding arrangement~~ inception to fulfil the ~~binding arrangement contract or other binding arrangement~~, that ~~that~~ activity does not result in the transfer of a promised good or service to the ~~purchaser 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 ~~period of the binding arrangement contractual other binding arrangement~~ period if the entity grants the ~~purchaser customer~~ the option to renew the ~~binding arrangement contract or other binding arrangement~~ and that option provides the ~~purchaser customer~~ with a material right as described in paragraph AG87.

**AG47-AG97.** 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.

**AG48-AG98.** An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a ~~binding arrangement 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 AG62. That is because the costs of setup activities do not depict the transfer of services to the ~~purchaser customer~~. The entity shall assess whether costs incurred in setting up a ~~binding arrangement contract or other binding arrangement~~ have resulted in an asset that shall be recognized in accordance with paragraph 96.

#### Licensing

**AG49-AG99.** A license establishes a ~~purchaser 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; Rights for natural resources;~~
- ~~(c)~~(b) Franchises; and
- ~~(d)~~(c) Patents, trademarks and copyrights.

**AG50-AG100.** In addition to a promise to grant a license (or licenses) to a ~~purchaser customer~~, an entity may also promise to transfer other goods or services to the ~~purchaser customer~~. Those promises may be explicitly stated in the ~~binding arrangement contract or other binding arrangement~~ or implied by an entity's customary ~~business~~ practices, published policies or specific statements (see paragraph 25). As with other types of ~~binding arrangements contracts or other binding arrangements~~, when a ~~binding arrangement contract or other binding arrangement~~ with a ~~purchaser 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 ~~binding arrangement contract or other binding arrangement~~.

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AG51-AG101. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangementcontract 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 binding arrangementcontract 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 purchasercustomer can benefit or receive service potential from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the purchasercustomer to access content).

AG52-AG102. 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.

AG53-AG103. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangementcontract 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 purchasercustomer 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 purchasercustomer is to provide the purchasercustomer 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*

AG54-AG104. The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

- (a) The binding arrangementcontract or other binding arrangement requires, or the purchasercustomer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the purchasercustomer has rights (see paragraphs AG105 and AG106);
- (b) The rights granted by the license directly expose the purchasercustomer to any positive or negative effects of the entity's activities identified in paragraph AG104(a); and
- (c) Those activities do not result in the transfer of a good or a service to the purchasercustomer as those activities occur (see paragraph 26).

AG55-AG105. Factors that may indicate that a purchasercustomer 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 purchasercustomer related to the intellectual property to which the purchasercustomer has rights may also indicate that the purchasercustomer could reasonably expect that the entity will undertake such activities.

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AG56-AG106. An entity's activities significantly affect the intellectual property to which the purchasercustomer 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 purchasercustomer to obtain benefit or service-potentialreceive service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit or service-potentialservice 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 purchasercustomer has rights has significant stand-alone functionality, a substantial portion of the benefit or service-potentialservice potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchasercustomer to obtain benefit or service-potentialservice 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).

AG57-AG107. If the criteria in paragraph AG104 are met, an entity shall account for the promise to grant a license as a performance obligation satisfied over time because the purchasercustomer will simultaneously receive and consume the benefit or service-potentialservice 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.

AG58-AG108. If the criteria in paragraph AG104 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 purchasercustomer. This means that the purchasercustomer can direct the use of, and obtain substantially all of the remaining benefits or service-potentialservice 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 purchasercustomer. 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 purchasercustomer is able to use and benefit or derive-service-potentialderive service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchasercustomer a code that enables the purchasercustomer to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

AG59-AG109. 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:

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

*Sales-Based or Usage-Based Royalties*

AG60-AG110. 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).

AG61-AG111. The requirement for a sales-based or usage-based royalty in paragraph AG110 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the purchaser/customer would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG62-AG112. When the requirement in paragraph AG111 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG110. When the requirement in paragraph AG111 is not met, the requirements on variable consideration in paragraphs 51 – 60 apply to the sales-based or usage-based royalty.

**Repurchase Agreements**

AG63-AG113. A repurchase agreement is a binding arrangement/contract or other binding arrangement in which an entity sells an asset and also promises or has the option (either in the same binding arrangement/contract or other binding arrangement or in another binding arrangement/contract or other binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the purchaser/customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component.

AG64-AG114. Repurchase agreements generally come in three forms:

- (a) An entity's obligation to repurchase the asset (a forward);
- (b) An entity's right to repurchase the asset (a call option); and
- (c) An entity's obligation to repurchase the asset at the purchaser/customer's request (a put option).

*A Forward or a Call Option*

AG65-AG115. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a purchaser/customer does not obtain control of the asset because the

**Commented [AD7]:** IFRS 15, *Revenue from Contracts with Customers* was issued in May 2014. IFRS 16, *Leases* was subsequently issued in January 2016. IFRS 16 amended the Scope and Binding Arrangement Costs (Paragraphs 5 and 97 respectively) and Repurchase Agreements (paragraphs B66 and B90) of IFRS 15.

This [draft] Standard is drawn from the amended IFRS 15. The IPSASB has a project in place, Exposure Draft (ED) 64, *Leases* to replace IPSAS 13, *Leases*. Any reference in this [draft] Standard to ED 64 shall be read as a reference to IPSAS 13, *Leases*.

Staff updated the [draft] Standard to the equivalent paragraphs that were amended in IFRS 15.

**Question for the Board**  
Does the Board agree with the staff view?

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purchasercustomer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits or service potential ~~service potential~~ from, the asset even though the purchasercustomer may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement ~~contract or other binding arrangement~~ as either of the following:

- (a) A lease in accordance with ~~IFRS 16~~ IPSAS 13 ~~IPSAS 13, Leases~~<sup>4</sup> if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset, ~~unless the contract or other binding arrangement is part of a sale and leaseback transaction. If the contract or other binding arrangement is part of a sale and leaseback transaction, the entity shall continue to recognize the asset and shall recognize a financial liability for any consideration received from the customer purchaser. The entity shall account for the financial liability in accordance with IFRS 9~~ IPSAS 41, Financial Instruments; or
- (b) A financing arrangement in accordance with paragraph AG117 if the entity can or must repurchase the asset for an amount that is equal to or more than the original selling price of the asset.

AG66-AG116. When comparing the repurchase price with the selling price, an entity shall consider the time value of money.

AG67-AG117. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the purchasercustomer. The entity shall recognize the difference between the amount of consideration received from the purchasercustomer and the amount of consideration to be paid to the purchasercustomer as interest and, if applicable, as processing or holding costs (for example, insurance).

AG68-AG118. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

#### *A Put Option*

AG69-AG119. If an entity has an obligation to repurchase the asset at the purchasercustomer's request (a put option) at a price that is lower than the original selling price of the asset, the entity shall consider at the inception of the binding arrangement ~~contract or other binding arrangement inception~~ whether the purchasercustomer has a significant economic incentive to exercise that right. The purchasercustomer's exercising of that right results in the purchasercustomer effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the purchasercustomer has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with ~~IFRS 16~~ IPSAS 13 ~~IPSAS 13, unless the contract or other binding arrangement is part of a sale and leaseback transaction. If the contract or other binding arrangement is part of a sale and leaseback transaction, the entity shall continue to recognize the asset and shall recognize a financial liability for any consideration received from the customer purchaser. The entity shall account for the financial liability in accordance with IAS 17~~ IPSAS 41.

**Commented [AD8]:** This section was removed because any reference in this [draft] Standard to ED 64 shall be read as a reference to IPSAS 13, *Leases*.

Question for the Board

Does the Board agree with the staff view?

<sup>4</sup> 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*.

**Commented [AD9]:** This section was removed because any reference in this [draft] Standard to ED 64 shall be read as a reference to IPSAS 13, *Leases*.

Question for the Board

Does the Board agree with the staff view?

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~~AG70-AG120.~~ To determine whether a ~~purchasereustomer~~ has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the ~~purchasereustomer~~ has a significant economic incentive to exercise the put option.

~~AG71-AG121.~~ If the ~~purchaserecustomer~~ does not have a significant economic incentive to exercise its right at a price that is lower than the original selling price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG63 – AG70.

~~AG72-AG122.~~ If the repurchase price of the asset is equal to or greater than the original selling price and is more than the expected market value of the asset, the ~~binding arrangementcontract-or-other-binding-arrangement~~ is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG117.

~~AG73-AG123.~~ If the repurchase price of the asset is equal to or greater than the original selling price and is less than or equal to the expected market value of the asset, and the ~~purchaserecustomer~~ does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG63 – AG70.

~~AG74-AG124.~~ When comparing the repurchase price with the selling price, an entity shall consider the time value of money.

~~AG75-AG125.~~ If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

#### **Consignment Arrangements**

~~AG76-AG126.~~ When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end ~~customerspurchasers~~, 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.

~~AG77-AG127.~~ 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 ~~purchaserecustomer~~ 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**

~~AG78-AG128.~~ A bill-and-hold arrangement is a ~~binding arrangementcontract-or-other-binding-arrangement~~ under which an entity bills a ~~purchaserecustomer~~ for a product but the entity retains physical possession of the product until it is transferred to the ~~purchasereustomer~~ at a point in time in the future. For example, a ~~purchaserecustomer~~ may request an entity to enter into such

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a ~~binding arrangement contract~~—or—~~other binding arrangement~~ because of the  ~~purchaser's~~ lack of available space for the product or because of delays in the  ~~purchaser's~~ production schedules.

**AG79-AG129.** An entity shall determine when it has satisfied its performance obligation to transfer a product by evaluating when a  ~~purchaser~~  obtains control of that product (see paragraph 39). For some  ~~binding arrangement contracts or other binding arrangement~~ , control is transferred either when the product is delivered to the  ~~purchaser's~~ site or when the product is shipped, depending on the terms of the  ~~binding arrangement contract or other binding arrangement~~  (including delivery and shipping terms). However, for some  ~~binding arrangement contracts or other binding arrangement~~ , a  ~~purchaser~~  may obtain control of a product even though that product remains in an entity's physical possession. In that case, the  ~~purchaser~~  has the ability to direct the use of, and obtain substantially all of the remaining benefits  ~~or or service potential~~  service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the  ~~purchaser~~  over the  ~~purchaser's~~ asset.

**AG80-AG130.** In addition to applying the requirements in paragraph 39, for a  ~~purchaser~~  to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

- (a) The reason for the bill-and-hold arrangement must be substantive (for example, the  ~~purchaser~~  has requested the arrangement);
- (b) The product must be identified separately as belonging to the  ~~purchaser~~ ;
- (c) The product currently must be ready for physical transfer to the  ~~purchaser~~ ; and
- (d) The entity cannot have the ability to use the product or to direct it to another  ~~purchaser~~ .

**AG81-AG131.** 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.

**Purchaser Customer Acceptance**

**AG82-AG132.** In accordance with paragraph 39(e),  ~~a customer's~~  a purchaser's acceptance of an asset  ~~may~~  indicate that the  ~~purchaser~~  has obtained control of the asset.  ~~Customer acceptance~~  Purchaser acceptance clauses  ~~may~~  allow  ~~a the purchaser~~  to cancel a  ~~binding arrangement 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 the purchaser~~  obtains control of a good or service.

**AG83-AG133.** If an entity can objectively determine that control of a good or service has been transferred to the  ~~purchaser~~  in accordance with the agreed-upon specifications in the  ~~binding arrangement contract or other binding arrangement~~ , then  ~~purchaser acceptance~~  customer acceptance is a formality that would not affect the entity's determination of when the  ~~purchaser~~  has obtained control of the good or service. For example, if the  ~~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  ~~purchaser acceptance~~  the customer's acceptance. The entity's experience with



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~~binding arrangements~~~~contracts or other binding arrangement~~ for similar goods or services may provide evidence that a good or service provided to the ~~purchaser~~~~customer~~ is in accordance with the agreed-upon specifications in the ~~binding arrangement~~~~contract or other binding arrangement~~. If revenue is recognized before ~~the purchaser~~~~customer~~ ~~acceptance~~~~accepts the asset~~, the entity still must consider whether there are any remaining performance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

~~AG84-AG134.~~ However, if an entity cannot objectively determine that the good or service provided to the ~~purchaser~~~~customer~~ is in accordance with the agreed-upon specifications in the ~~binding arrangement~~~~contract or other binding arrangement~~, then the entity would not be able to conclude that the ~~purchaser~~~~customer~~ has obtained control until the entity receives ~~the acceptance by the purchaser~~~~customer's acceptance~~. That is because in that circumstance the entity cannot determine that the ~~purchaser~~~~customer~~ has the ability to direct the use of, and obtain substantially all of the remaining benefits ~~or service potential~~~~or service potential~~ from, the good or service.

~~AG135.~~ If an entity delivers products to a ~~purchaser~~~~customer~~ for trial or evaluation purposes and the ~~purchaser~~~~customer~~ is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the ~~purchaser~~~~customer~~ until either the ~~purchaser~~~~customer~~ accepts the product or the trial period lapses.

Disclosure (see paragraphs 111- 130)

**Disclosure of Disaggregated Revenue**

~~AG85-AG136.~~ Paragraph 115 requires an entity to disaggregate revenue from ~~binding arrangements~~~~contracts or other binding arrangements~~ with ~~customers~~~~purchasers~~ into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's ~~binding arrangements~~~~contracts or other binding arrangements~~ with ~~customers~~~~purchasers~~. 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.

~~AG86-AG137.~~ 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 AG137(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.

~~AG87-AG138.~~ 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);



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- (b) Geographical region (for example, country or region);
- (c) Market or type of purchasereustomer (for example, government and non-government customerspurchasers);
- (d) Type of binding arrangementcontract or other binding arrangement (for example, fixed-price and time-and-materials binding arrangementscontracts—or—other binding arrangements);
- (e) Duration of the binding arrangementContract 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—purchasers 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).

## Amendments to Other IPSAS

### Amendments to IPSAS 1, *Presentation of Financial Statements*

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

...

### Overall Considerations

...

### Offsetting

...

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

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

...

### Effective Date

...

153N. Paragraph 50 was amended by [draft] IPSAS [XX] (ED XX) 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 XX) at the same time.

...

## Implementation Guidance

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

### Illustrative Financial Statement Structure

...

#### Public Sector Entity—Statement of Accounting Policies (Extract)

*Reporting Entity*

...

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

##### (Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions <u>binding arrangements with purchasers</u>	X	X
Transfers from other government entities	X	X
Other revenue	X	X
<b>Total revenue</b>	<u>X</u>	<u>X</u>
<b>Expenses</b>		
General public services	(X)	(X)
...	...	...
<b>Total expenses</b>	<u>(X)</u>	<u>(X)</u>
Share of surplus of associates <sup>*</sup>	X	X
<b>Surplus/(deficit) for the period</b>	<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
<b>Revenue</b>		

<sup>\*</sup> 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.

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	<b>20X2</b>	<b>20X1</b>
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from <del>exchange transactions</del> <u>binding arrangements with purchasers</u>	X	X
Transfers from other government entities	X	X
Other revenue	X	X
<b>Total Revenue</b>	<u>X</u>	<u>X</u>
<b>Expenses</b>		
Wages, salaries, and employee benefits	(X)	(X)
...	...	...
<b>Total Expenses</b>	<u>(X)</u>	<u>(X)</u>
Share of surplus of associates	X	X
<b>Surplus/(deficit) for the period</b>	<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, 28, 39 and 48 are amended and paragraph 51F is added. New text is underlined and deleted text is struck through.

...

**Scope**

...

1. 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

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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 binding arrangement with a purchaser that do not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with [draft] IPSAS [XX] (ED X), *Revenue from Binding Arrangements with Purchasers*.

...

## Measurement of Inventories

...

### Cost of Inventories of a Service Provider

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

...

### Net Realizable Value

...

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

...

### Disclosure

...

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

...

## Effective Date

...

51F. Paragraphs 2, 11, 28, 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 5, 13, 78 and 81 are amended and paragraph 101H is added. New text is underlined and deleted text is struck through.

...

## Scope

...

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

- (a) ...
- (b) Recognition of lease revenue from investment property (see also IPSAS 9, ~~Revenue from Exchange Transactions~~ [draft] IPSAS [XX] (ED X), *Revenue from Binding Arrangements with Purchasers*);
- (c) ...

...

## Definitions

...

### Investment Property

...

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

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

(c) ...

## Disposals

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

81. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, using the effective interest method determined in accordance with the requirements for determining the transaction price in paragraphs 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

101H. Paragraphs 5, 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 107P is added. New text is underlined and deleted text is struck through.

## Derecognition

83A. However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their

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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 Binding Arrangements with Purchasers.

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, 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

...

- 107P. 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 76F is added. New text is underlined and deleted text is struck through.

...

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

...

### Segment Assets, Liabilities, Revenue, and Expense

...



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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 14, *Construction Contracts*, ~~[draft] IPSAS [XX] (ED X), Revenue from Binding Arrangements with Purchasers~~, provides guidance for attributing and allocating costs to ~~contracts~~ binding arrangements. That guidance may be useful in attributing and allocating costs to segments.

...

## Effective Date

...

- 76F. Paragraph 39 was amended by [draft] IPSAS [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 111J is added. New text is underlined and deleted text is struck through.

...

## Scope

...

### Other Exclusions from the Scope of the Standard

...

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

- (a) ~~Construction contracts (see IPSAS 11, *Construction Contracts*); and~~
- (b) ...

...

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 Binding Arrangements with Purchasers, identifies the circumstances in which revenue from transactions with performance obligations 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

...

111J. 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

...

### A Single Guarantee

...

### Analysis

...

### Conclusion

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

...

### 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*); Assets arising from binding arrangements that are recognized in accordance with [draft] IPSAS [XX] (ED X), *Revenue from Binding Arrangements with Purchasers*;

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(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

5. This Standard addresses revenue arising from **non-exchange transactions**. Revenue arising from ~~exchange transactions~~ transactions with performance obligations is addressed in IPSAS-9, ~~Revenue from Exchange Transactions~~ [draft] IPSAS [XX] (ED X), Revenue from Binding Arrangements 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:

(a) ...

## Definitions

### 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~~ binding arrangement for an exchange transaction with performance obligations that should be accounted for under IPSAS 9[draft] IPSAS [XX] (ED X).

...

## Effective Date

...

- 124I. 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 Obligation) (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 ~~to~~ receive a future economic benefit

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or derive service potential) to profit from the research results. IPSAS 9[draft] IPSAS [XX] (ED X).  
Revenue from Binding Arrangements with Purchasers and IPSAS 31, *Intangible Assets* apply to  
this transaction.

...

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

...

**Illustrative Examples**

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

...

**Additional Column Approach**

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

**Both Annual Budget And Financial Statements Adopt Accrual Basis**

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

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

...

\* 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.

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

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

...

**Scope**

...

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

- (a) ...
- (b) Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*) Assets arising from binding arrangements that are recognized in accordance with [draft] IPSAS [XX] (ED X), *Revenue from Binding Arrangements with Purchasers*;
- (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 29, *Financial Instruments: Recognition and Measurement***

Paragraphs 49 and 64 are amended and paragraph 125I is added. New text is underlined and deleted text is struck through.

...

**Measurement**

**Subsequent Measurement of Financial Liabilities**

49. After initial recognition, an entity shall measure all financial liabilities at amortized cost using the effective interest method, except for:

- (a) ...
- (c) Financial guarantee contracts as defined in paragraph 10. After initial recognition, an issuer of such a contract shall (unless paragraph 49(a) or (b) applies) measure it at the higher of:
  - (i) The amount determined in accordance with IPSAS 19; and

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- (ii) The amount initially recognized (see paragraph 45) less, when appropriate, cumulative amortization recognized in accordance with IPSAS 9[draft] IPSAS [XX] (ED X), Revenue from Binding Arrangements with Purchasers.
- (d) Commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 49(a) applies) measure it at the higher of:
  - (i) The amount determined in accordance with IPSAS 19; and
  - (ii) The amount initially recognized (see paragraph 45) less, when appropriate, cumulative amortization recognized in accordance with IPSAS 9[draft] IPSAS [XX] (ED X), Revenue from Binding Arrangements with Purchasers.

...

#### **Gains and Losses**

...

64. A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship (see paragraphs 99–113), shall be recognized, as follows.
- (a) ...
  - (b) A gain or loss on an available-for-sale financial asset shall be recognized directly in net assets/equity through the statement of changes in net assets/equity (see IPSAS 1, except for impairment losses (see paragraphs 76–79) and foreign exchange gains and losses (see Appendix A paragraph AG116), until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets/equity shall be recognized in surplus or deficit. However, interest calculated using the effective interest method (see paragraph 10) is recognized in surplus or deficit (see IPSAS 9[draft] IPSAS [XX] (ED X)). Dividends or similar distributions on an available-for-sale equity instrument are recognized in surplus or deficit when the entity's right to receive payment is established (see IPSAS 9[draft] IPSAS [XX] (ED X)).

...

#### **Effective Date**

...

- 125I. Paragraphs 49 and 64 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.

...

#### **Basis for Conclusions**

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

...

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

...

#### **Amendments to IPSAS 31, *Intangible Assets***

Paragraphs 6, 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 14, ~~*Construction Contracts*~~, and IPSAS 12, *Inventories*);

...

- (g) Assets arising from binding arrangements that are recognized in accordance with [draft] IPSAS [XX] (ED X), *Revenue from Binding Arrangements with Purchasers*.

...

#### **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



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

...

115. The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction price in paragraphs 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 36E 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 Binding Arrangements with Purchasers.~~

...

#### **Effective Date**

...

- 36E. 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 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 Binding Arrangements with Purchasers. 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 [draft] IPSAS [XX] (ED X), Revenue from Binding Arrangements with Purchasers to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

...

### Implementation Guidance

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

...

#### Accounting Framework for Service Concession Arrangements

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

...

#### WITHIN THE SCOPE OF THE STANDARD

- ...
- Grantor recognizes related liability equal to the value of the SCA asset (IPSAS 9[draft] IPSAS [XX] (ED X), Revenue from Binding Arrangements with Purchasers, IPSAS 20, IPSAS 29, and IPSAS 30~~41~~)
- ...

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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) <del>IPSAS 9 (draft)</del> IPSAS [XX] (ED X) (revenue recognition)	

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

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

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

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

*Recognition and/or Measurement of Assets and/or Liabilities*

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

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...

## Effective Date

...

154I. 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 Binding Arrangements with Purchasers**

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
...	...	...	...	...	...	...	...	...
IPSAS 9, <i>Revenue from Exchange Transactions</i> [draft] IPSAS [XX] (ED X), <i>Revenue from Binding Arrangements with Purchasers</i>	√				√ To extent that 3 year relief period was adopted for assets and/or liabilities			

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...	...	...	...	...	...	...	...	...
IPSAS 11, <del>Construction Contracts</del> (draft) IPSAS [XX] (ED X), <u>Revenue from Binding Arrangements with Purchasers</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	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 126C 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:

- (c) The amount that would be recognized in accordance with IPSAS 19; and
- (d) 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 Binding Arrangements with Purchasers.

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

...

## Effective Date

...

126C. 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, 59A, 60 and 87 are amended and paragraph 156B is added. New text is underlined and deleted text is struck through.

...

## Scope

...

115. 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 Binding Arrangements with Purchasers and IPSAS 23 transactions which give rise to financial instruments for the purposes of recognizing impairment gains or losses.

...

## Classification

...

#### **Classification of Financial Liabilities**

45. An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

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

...

#### **Measurement**

...

#### **Impairment**

...

#### *Simplified Approach for Receivables*

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

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

...

#### **Effective Date**

...

156A. Paragraphs 3, 45, 60 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 Binding Arrangements with Purchasers.

...

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

- (a) Although a financial guarantee contract meets the definition of an insurance contract in IFRS-4 the scope relevant international or national accounting standard dealing with insurance contracts if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:
  - (i) ...; and
  - (ii) The amount initially recognized less, when appropriate, the cumulative ~~amortization~~amount of revenue recognized in accordance with the principles of ~~IPSAS 9~~[draft] IPSAS [XX] (ED X) (see paragraph 45(c)).

...



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- (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

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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~~ amount of revenue in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~ IPSAS [XX] (ED X), Revenue from Binding Arrangements with Purchasers.

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~~ amount of revenue recognized in accordance with ~~IPSAS 9~~ 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~~ IPSAS [XX] (ED X) include:

...

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## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX).*

### **Introduction**

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED XX). As this Standard is based on IFRS 15, *Revenue from Contracts with Customers* issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS [X] (ED XX) departs from the main requirements of IFRS 15.
- BC2. In May 2014, the IASB published the final version of IFRS 15, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.
- BC3. In 2017, the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for revenue as part of the IPSASB's convergence program which aims to converge IPSASs with IFRSs. The text of [draft] IPSAS [X] (ED XX) is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSASs. This new IPSAS replaces IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*. IPSAS 9 and IPSAS 11 are principally based on IAS 11 and IAS 18.

### **Consistency with IFRS 15**

- BC4. In developing [draft] IPSAS [X] (ED XX), the IPSASB applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development, the IPSASB debated a number of issues and whether departure was justified.
- BC5. The IPSASB agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSASs and made the following modifications:
- (a) Changes to the definitions and terminologies in IFRS 15 to ensure consistency with *The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Conceptual Framework) to suit the context of the public sector;
  - (b) Updates to references made to other standards in IFRS 15 to reflect that of IPSAS literature; and
  - (c) Additional public sector examples to help with the application of the [draft] IPSAS [X] (ED XX).

### **Definitions (see paragraph 9)**

#### **Binding Arrangements**

- BC6. The IPSASB replaced all references to "contractual arrangements" in IFRS 15 with references to the term "binding arrangements". This change acknowledges that in some jurisdictions, entities may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements. In addition, the IPSASB agreed that binding arrangements, for the purpose of this Standard, should encompass rights that arise from legislative or executive authority.

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Binding Arrangement Asset and Binding Arrangement Liability

BC7. The IPSASB replaced all references to “contract asset” and “contract liability”, in IFRS 15, with references to the term “binding arrangement asset” and “binding arrangement liability”, respectively. This change acknowledges that in some jurisdictions, entities applying IPSAS may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements.

Purchaser

BC8. The IPSASB acknowledged that, the term, “customer”, may not always suit the public sector and considered the appropriateness of terms, such as, “another party, buyer, commissioner, commissioning body, contractor, counterparty, payee, payer, resource provider, other party and purchaser”.

BC9. The IPSASB replaced the term, “customer” with the term, “purchaser”, because the term is widespread in the IPSAS literature and is more suited for the public sector.

Revenue

BC10. The IPSASB agreed to use revenue in place of income, to be consistent with IPSAS 1, *Presentation of Financial Statements*, which uses revenue to correspond to income in the IASs/IFRSs.

BC11. The IPSASB removed the references to “ordinary activities” from the definition of “customer” and “revenue” in IFRS 15 to ensure consistency with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Framework). The current IPSASB literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

Enforceability

BC12. The Board noted that some binding arrangements are enforceable not by legal means but by equivalent enforcement mechanisms and discussed which of these mechanisms would be appropriate to use in this [draft] Standard.

BC13. The Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*, proposed:

(a) Legislation;

(b) Cabinet and ministerial decisions; and

(c) Reduction of future funding

as possible enforcement mechanisms by equivalent means. Respondents to the CP were generally supportive but were unsure about the validity of a reduction of future funding as an enforcement mechanism.

BC14. The Board also discussed sovereign rights and economic coercion or political necessity.

BC15. The Board agreed that cabinet and ministerial decisions and sovereign rights were subsets of legislation and may in some circumstances be valid enforcement mechanisms. They discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an

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agreement were include in the binding arrangement then this may create a valid enforcement mechanism.

BC16. The Board also discussed whether the threat of reduction of future funding created a valid enforcement mechanism and decided that it could only be used to enforce a binding arrangement if purchaser had a present obligation to provide future funding in a separate binding arrangement. Without this separate binding arrangement and present obligation there is not future funding to be reduced.

BC17. The Board also discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The noted that 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.

BC18. However, the Board were 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 [draft] IPSAS because a non-legally giving obligation as cited in the *Framework* is binding on the promisor only whereas a binding arrangement as used in this IPSAS both parties have to agree to the rights and obligations within that agreement.

BC19. The Board also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g. a general policy statement or announcement following a natural disaster) would create an enforceable binding arrangement. The Board decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement between the parties, and therefore there is no binding arrangement. Such an announcement may be accounted for under IPSAS 19.

**Recognition (see paragraphs 10 - 46)**

Economic Substance

BC20. The IPSASB decided to replace the phrase 'commercial substance' with 'economic substance', includes commercial substance. The public sector entities for which IPSAS are designed do not generally have commercial objectives therefore the term 'commercial substance' is inappropriate.

Probability of Revenue Recognition

BC21. The IPSASB retained the criteria used to apply the revenue recognition model to identify contracts in IFRS 15, *Revenue from Contracts with Customers* when identifying binding arrangements in the [draft] Exposure Draft (ED) on Revenue. The criteria was retained to align with revenue recognition requirements in IPSAS 9, *Revenue from Exchange Transactions* and IFRS 15.

BC22. The IPSASB acknowledged that assessing the probability criterion for certain binding arrangements with purchasers is an issue for the public sector in some jurisdictions. Some public sector entities are required to provide certain goods and services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of credit risk.

BC23. The IPSASB also acknowledged that public sector entities may enter into numerous binding arrangements where collectability of the consideration is not probable. Some jurisdictions recognize

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the full amount of revenue transactions from such binding arrangements at the inception and  
assesses the collectability of consideration separately as a subsequent measurement issue

Economic Objective

BC24. The IPSASB replaced the term, 'economic objective' with the term, 'commercial objective' because the term, 'commercial objective' refers to the objective to make profit. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits. The term, 'economic objective' is more appropriate as it incorporates both objectives of profit making and service delivery.

Identifying a Performance Obligation in a binding arrangement

BC25. The Board discussed whether it was necessary to add a further criterion to complement 'distinct' in a promise in a binding arrangement to enable the promises within a binding arrangement to be identified, so that an entity could determine when a performance obligation was fulfilled. The Board considered terms such as 'sufficiently specific'. However, the Board decided that the requirements in the [draft] IPSAS were appropriate for the identification of separately identifiable promises.

BC26. The Board discussed whether the requirement in IFRS 15 that a performance obligation include the transfer of goods and services to be within scope should be modified to include some transactions that do not result in a transfer of a good or service (e.g. capital grants and some research grants). The Board decided to maintain the IFRS 15 requirements for a performance obligation. Transactions that did not have performance obligations would be addressed in an updated IPSAS 23.

**Measurement (see paragraphs 47 - 91)**

Allocating the Transaction Price to Performance Obligations

BC27. The IPSASB replaced the term, "expected cost plus a margin approach" with the term, "expected cost approach", because certain goods and services are purchased or produced by public sector entities for no charge or for a nominal charge ('cost – recovery' or 'non – commercial basis').

BC28. The IPSASB retained the "adjusted market assessment approach" and "residual approach" methods because the terms were considered to be appropriate for the public sector. These methods are used to estimate the stand alone selling price in order to allocate the transaction price to each performance obligation.

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**Implementation Guidance**

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED XX)

## **Illustrative Examples – THESE ILLUSTRATIVE EXAMPLES ARE UNDER DEVELOPMENT**

*These examples accompany, but are not part of, [draft] IPSAS [X] (ED XX).*

### **Identifying the ~~contract~~Binding Arrangement**

*Illustrating the Consequences of Applying Paragraphs 10–17, 48 and 53 and AG110–AG112 of [draft] IPSAS [X] (ED XX)*

IE1. The following scenarios illustrate the process for identifying the binding arrangement, estimating the variable consideration and consideration in the form of sales-based or usage-based royalties on licenses of intellectual property. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED XX).

IE1. IE2 Examples 1–4 illustrate the requirements in paragraphs 9–16 of IFRS 15 on identifying the contract. In addition, the following requirements are illustrated in these examples:

- (a) (a) the interaction of paragraph 9 of IFRS 15 with paragraphs 47 and 52 of IFRS 15 on estimating variable consideration (Examples 2–3); and

IE2. (b) paragraph B63 of IFRS 15 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property (Example 4).

### **Example 1—Collectability of the ~~e~~Consideration**

IE2. Paragraph 10 states that a binding arrangement with a purchaser is within the scope of this [draft] IPSAS [X] (ED XX) when all of the following criteria are met:

- (a) The parties to the binding arrangement have approved the binding arrangement;
- (b) The entity can identify each party's rights regarding the goods or services to be transferred;
- (c) The entity can identify the payment terms for the goods or services to be transferred;
- (d) The binding arrangement has economic substance; and
- (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser.

IE3. This [draft] IPSAS [X] (ED XX) generally requires entities to evaluate whether collectability of an amount of consideration is probable. However, this [draft] IPSAS [X] (ED XX), permits entities to not consider the likelihood of receiving the consideration, when recognizing revenue as an alternative treatment. Accordingly, the full amount of the consideration of revenue should be recognized.

### **Scenario 1—Evaluating the Probability of Collectability of Revenue**

IE3. IE4. IE3—An entity, a real estate developer, enters into a ~~contract~~binding arrangement with a customer purchaser for the sale of a building for CU1 million<sup>5</sup>. The customer purchaser intends

<sup>5</sup> In these examples monetary amounts are denominated in 'currency units' (CU).

<sup>6</sup> In these examples monetary amounts are denominated in 'currency units' (CU).



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to open a restaurant in the building. The building is located in an area where new restaurants face high levels of competition and the customer-purchaser has little experience in the restaurant industrysector.

~~IE4.~~~~IE5.~~~~IE4~~—The purchaser customer pays a non-refundable deposit of CU50,000 at the inception of the contract-binding arrangement and enters into a long-term financing agreement with the entity for the remaining 95-per-cent of the promised consideration. The financing arrangement is provided on a non-recourse basis, which means that if the purchaser customer defaults, the entity can repossess the building, but cannot seek further compensation from the purchasercustomer, even if the collateral does not cover the full value of the amount owed. The entity's cost of the building is CU600,000. The purchaser customer obtains control of the building at the inception of the binding arrangement~~contract inception~~.

~~IE5.~~~~IE6.~~~~IE5~~—In assessing whether the binding arrangement~~contract~~ meets the criteria in paragraph ~~109~~ of [draft] IPSAS [X] (ED XX)IFRS-15, the entity concludes that the criterion in paragraph ~~10(e)9(e)~~ of [draft] IPSAS [X] (ED XX)IFRS-15 is not met because it is not probable that the entity will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the entity observes that the purchasercustomer's ability and intention to pay may be in doubt because of the following factors:

- (a) ~~(a)~~—~~t~~The purchasercustomer intends to repay the loan (which has a significant balance) primarily from income-revenue derived from its restaurant business (which is a business facing significant risks because of high competition in the industry-sector and the purchasercustomer's limited experience);
- (b) ~~(b)~~—~~t~~The purchasercustomer lacks other income-revenue or assets that could be used to repay the loan; and
- ~~(c)~~ ~~(e)~~—~~t~~The purchasercustomer's liability under the loan is limited because the loan is non-recourse.

~~IE6.~~~~IE7.~~Because the criteria in paragraph ~~109~~ of [draft] IPSAS [X] (ED XX)IFRS-15 are not met, the entity applies paragraphs ~~1615~~–~~1716~~ of [draft] IPSAS [X] (ED XX)IFRS-15 to determine the accounting for the non-refundable deposit of CU50,000. The entity observes that none of the events described in paragraph ~~1615~~ have occurred—that is, the entity has not received substantially all of the consideration and it has not terminated the contractbinding arrangement. Consequently, in accordance with paragraph ~~1716~~, the entity accounts for the non-refundable CU50,000 payment as a deposit liability. The entity continues to account for the initial deposit, as well as any future payments of principal and interest, as a deposit liability, until such time that the entity concludes that the criteria in paragraph ~~109~~ are met (ie the entity is able to conclude that it is probable that the entity will collect the consideration) or one of the events in paragraph ~~1615~~ has occurred. The entity continues to assess the contract-binding arrangement in accordance with paragraph ~~1514~~ to determine whether the criteria in paragraph ~~109~~ are subsequently met or whether the events in paragraph ~~1615~~ of [draft] IPSAS [X] (ED XX)IFRS-15 have occurred.

Scenario 2—Non-Evaluation of the Probability of Collectability of Revenue

IE8. Entity A provides public goods and services to private households. Entity A bills individual households on a monthly basis for goods provided and services rendered. Entity A estimates, based on past experience, that only about 90 per cent of the revenues will be collected. Entity A

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recognizes the full amount of revenue based on the terms of the arrangement with each household,  
notwithstanding its knowledge based on past experience.

IE9. Consideration should be given to whether there is objective evidence that an impairment loss has  
been incurred when making the impairment assessment for subsequent measurement of the  
receivables at the reporting date. The disclosure of the subsequent impairment improves the  
information provided to users of the financial statements

*Example 2—Consideration ~~is not not the the stated~~ Stated Price—~~implicit~~ Implicit price Price  
~~concession~~ Concession*

IE7-IE10. IE7—An entity sells 1,000 units of a prescription drug to a customer-purchaser for  
promised consideration of CU1-million. This is the entity's first sale to a customer-purchaser in a  
new region, which is experiencing significant economic difficulty. Thus, the entity expects that it will  
not be able to collect from the purchasercustomer the full amount of the promised consideration.  
Despite the possibility of not collecting the full amount, the entity expects the region's economy to  
recover over the next two to three years and determines that a relationship with the  
purchasercustomer could help it to forge relationships with other potential customers-purchasers in  
the region.

IE8-IE11. IE8—When assessing whether the criterion in paragraph 10(e)9(e) of [draft] IPSAS [X]  
(ED XX)IFRS-15 is met, the entity also considers paragraphs 4847 and 53(b)52(b) of  
[draft] IPSAS [X] (ED XX)IFRS-15. Based on the assessment of the facts and circumstances, the  
entity determines that it expects to provide a price concession and accept a lower amount of  
consideration from the purchasercustomer. Accordingly, the entity concludes that the transaction  
price is not CU1-million and, therefore, the promised consideration is variable. The entity estimates  
the variable consideration and determines that it expects to be entitled to CU400,000.

IE9-IE12. IE9—The entity considers the purchasercustomer's ability and intention to pay the  
consideration and concludes that even though the region is experiencing economic difficulty, it is  
probable that it will collect CU400,000 from the purchasercustomer. Consequently, the entity  
concludes that the criterion in paragraph 10(e)9(e) of [draft] IPSAS [X] (ED XX)IFRS-15 is met  
based on an estimate of variable consideration of CU400,000. In addition, on the basis of an  
evaluation of the contract-binding arrangement terms and other facts and circumstances, the entity  
concludes that the other criteria in paragraph 109 of [draft] IPSAS [X] (ED XX)IFRS-15 are also  
met. Consequently, the entity accounts for the contract-binding arrangement with the  
purchasercustomer in accordance with the requirements in [draft] IPSAS [X] (ED XX)IFRS-15.

*Example 3—Implicit Price ~~concession~~ Concession*

IE10-IE13. IE10—An entity, a government hospital, provides medical services to an uninsured patient  
in the emergency room. The hospitalentity has not previously provided medical services to this  
patient but is required by law to provide medical services to all emergency room patients. Because  
of the patient's condition upon arrival at the hospital, the hospital-entity provides the services  
immediately and, therefore, before the government hospitalentity can determine whether the patient  
is committed to perform its obligations under the contract-binding arrangement in exchange for the  
medical services provided. Consequently, the contract-binding arrangement does not meet the  
criteria in paragraph 109 of [draft] IPSAS [X] (ED XX)IFRS-15 and, in accordance with  
paragraph 1514 of [draft] IPSAS [X] (ED XX)IFRS-15, the hospitalentity will continue to assess its  
conclusion based on updated facts and circumstances.

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~~IE11:~~~~IE14:~~ After providing services, the ~~hospital~~~~entity~~ obtains additional information about the patient including a review of the services provided, standard rates for such services and the patient's ability and intention to pay the ~~hospital~~~~entity~~ for the services provided. During the review, the ~~hospital~~~~entity~~ notes its standard rate for the services provided in the emergency room is CU10,000. The ~~hospital~~~~entity~~ also reviews the patient's information and to be consistent with its policies designates the patient to a ~~purchaser~~~~customer~~ class based on the ~~entity's~~~~hospital's~~ assessment of the patient's ability and intention to pay.

~~IE12:~~~~IE15:~~ ~~IE12~~—Before reassessing whether the criteria in paragraph ~~\_109~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ have been met, the ~~entity~~~~hospital~~ considers paragraphs ~~48~~~~47~~ and ~~53~~(b)~~52~~(b) of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the ~~hospital~~~~entity~~ expects to accept a lower amount of consideration in exchange for the services. Accordingly, the ~~hospital~~~~entity~~ concludes that the transaction price is not CU10,000 and, therefore, the promised consideration is variable. The ~~hospital~~~~entity~~ reviews its historical cash collections from this ~~purchaser~~~~customer~~ class and other relevant information about the patient. The ~~entity~~~~hospital~~ estimates the variable consideration and determines that it expects to be entitled to CU1,000.

~~IE13:~~~~IE16:~~ ~~IE13~~—In accordance with paragraph ~~\_10~~(e)~~9~~(e) of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the ~~hospital~~~~entity~~ evaluates the patient's ability and intention to pay (ie the credit risk of the patient). On the basis of its collection history from patients in this ~~purchaser~~~~customer~~ class, the ~~hospital~~~~entity~~ concludes it is probable that the ~~hospital~~~~entity~~ will collect CU1,000 (which is the estimate of variable consideration). In addition, on the basis of an assessment of the ~~contract~~~~binding arrangement~~ terms and other facts and circumstances, the ~~hospital~~~~entity~~ concludes that the other criteria in paragraph ~~\_109~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ are also met. Consequently, the ~~hospital~~~~entity~~ accounts for the ~~contract~~~~binding arrangement~~ with the patient in accordance with the requirements in ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~.

*Example 4—Reassessing the ~~e~~Criteria for ~~identifying~~~~identifying~~ a ~~contract~~~~Binding Arrangement~~*

~~IE14:~~~~IE17:~~ ~~IE14~~—An entity ~~licences~~~~licenses~~ a patent to a ~~purchaser~~~~customer~~ in exchange for a usage-based royalty. At ~~contract~~~~the inception of the binding arrangement~~~~inception~~, the ~~binding arrangement~~~~contract~~ meets all the criteria in paragraph ~~\_109~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ and the entity accounts for the ~~contract~~~~binding arrangement~~ with the ~~customer~~~~purchaser~~ in accordance with the requirements in ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. The entity ~~recognises~~~~recognizes~~ revenue when the ~~purchaser~~~~customer~~'s subsequent usage occurs in accordance with paragraph ~~AG110~~~~B63~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~.

~~IE15:~~~~IE18:~~ ~~IE15~~—Throughout the first year of the ~~contract~~~~binding arrangement~~, the ~~purchaser~~~~customer~~ provides quarterly reports of usage and pays within the agreed-upon period.

~~IE16:~~~~IE19:~~ ~~IE16~~—During the second year of the ~~contract~~~~binding arrangement~~, the ~~purchaser~~~~customer~~ continues to use the entity's patent, but the ~~purchaser~~~~customer~~'s financial condition declines. The ~~purchaser~~~~customer~~'s current access to credit and available cash on hand are limited. The entity continues to ~~recognise~~~~recognize~~ revenue on the basis of the ~~purchaser~~~~customer~~'s usage throughout the second year. The ~~purchaser~~~~customer~~ pays the first quarter's royalties but makes nominal payments for the usage of the patent in Quarters ~~2~~~~\_~~~~4~~. The entity accounts for any impairment of the existing receivable in accordance with ~~IFRS 9~~~~IPSAS 41~~, *Financial Instruments*.

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~~IE17-IE20.~~ ~~IE17~~—During the third year of the ~~contract-binding arrangement~~, the ~~purchaser-customer~~ continues to use the entity's patent. However, the entity learns that the ~~purchaser-customer~~ has lost access to credit and its major ~~customers-purchasers~~ and thus the ~~purchaser-customer~~'s ability to pay significantly deteriorates. The entity therefore concludes that it is unlikely that the ~~purchaser-customer~~ will be able to make any further royalty payments for ongoing usage of the entity's patent. As a result of this significant change in facts and circumstances, in accordance with paragraph ~~1413~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the entity reassesses the criteria in paragraph ~~109~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ and determines that they are not met because it is no longer probable that the entity will collect the consideration to which it will be entitled. Accordingly, the entity does not ~~recognise~~~~recognize~~ any further revenue associated with the ~~purchaser-customer~~'s future usage of its patent. The entity accounts for any impairment of the existing receivable in accordance with ~~IFRS 9~~~~IPSAS 41~~, *Financial Instruments*.

**Contract Modifications to a Binding Arrangement modifications**

*Illustrating the Consequences of Applying Paragraphs 19-22, 23-31, 57-59 and 88-91 of [draft] IPSAS [X] (ED XX)*

~~IE21.~~ The following examples illustrate the requirements for modifications to a binding arrangement, identifying performance obligations, constraining estimates of variable consideration and changes in the transaction price. The examples are not based on actual transactions.

*Example 5—Modification of to a ~~contract-binding arrangement~~ for goods*~~Goods~~

~~IE18-IE22.~~ An entity promises to sell 120 products to a ~~customer-purchaser~~ for CU12,000 (CU100 per product). The products are transferred to the ~~purchaser-customer~~ over a six-month period. The entity transfers control of each product at a point in time. After the entity has transferred control of 60 products to the ~~purchaser-customer~~, the ~~contract-binding arrangement~~ is modified to require the delivery of an additional 30 products (a total of 150 identical products) to the ~~purchaser-customer~~. The additional 30 products were not included in the initial ~~contract-binding arrangement~~.

*Case A—Additional ~~P~~products for a ~~price-Price~~ that ~~reflects-Reflects~~ the ~~stand-stand-alone-Alone~~ selling ~~Selling price-Price~~*

~~IE19-IE23.~~ ~~IE20~~—When the ~~binding arrangement~~~~contract~~ is modified, the price of the ~~modification to a binding arrangement~~~~contract modification~~ for the additional 30 products is an additional CU2,850 or CU95 per product. The pricing for the additional products reflects the stand-alone selling price of the products at the time of the ~~modification to a binding arrangement~~~~contract modification~~ and the additional products are distinct (in accordance with paragraph ~~2827~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~) from the original products.

~~IE20-IE24.~~ ~~IE21~~—In accordance with paragraph ~~2120~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the ~~contract-modification to a binding arrangement modification~~ for the additional 30 products is, in effect, a new and separate ~~contract-binding arrangement~~ for future products that does not affect the accounting for the existing ~~contract-binding arrangement~~. The entity ~~recognises~~~~recognizes~~ revenue of CU100 per product for the 120 products in the original ~~contract-binding arrangement~~ and CU95 per product for the 30 products in the new ~~contract-binding arrangement~~.

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Case B—Additional ~~P~~products for a ~~price-Price~~ that ~~does-Does~~ not ~~reflect-Reflect~~ the ~~stand-stand-alone~~  
~~Alone selling-Selling pricePrice~~

~~IE21-IE25.~~ ~~IE22~~—During the process of negotiating the purchase of an additional 30~~-~~products, the parties initially agree on a price of CU80 per product. However, the ~~purchasercustomer~~ discovers that the initial 60~~-~~products transferred to the ~~purchasercustomer~~ contained minor defects that were unique to those delivered products. The entity promises a partial credit of CU15 per~~-~~product to compensate the ~~purchasercustomer~~ for the poor quality of those products. The entity and the ~~purchasercustomer~~ agree to incorporate the credit of CU900 (CU15 credit × 60 products) into the price that the entity charges for the additional 30~~-~~products. Consequently, the ~~contract-modification to a binding arrangement~~ ~~modification~~ specifies that the price of the additional 30~~-~~products is CU1,500 or CU50 per product. That price comprises the agreed-upon price for the additional 30~~-~~products of CU2,400, or CU80 per product, less the credit of CU900.

~~IE22-IE26.~~ ~~IE23~~—At the time of modification, the entity ~~recognises~~~~recognizes~~ the CU900 as a reduction of the transaction price and, therefore, as a reduction of revenue for the initial 60~~-~~products transferred. In accounting for the sale of the additional 30~~-~~products, the entity determines that the negotiated price of CU80 per~~-~~product does not reflect the stand-alone selling price of the additional products. Consequently, the ~~modification to a binding arrangement~~~~contract-modification~~ does not meet the conditions in paragraph ~~21~~~~20~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ to be accounted for as a separate ~~contract~~~~binding arrangement~~. Because the remaining products to be delivered are distinct from those already transferred, the entity applies the requirements in paragraph ~~22(a)~~~~24(a)~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ and accounts for the modification as a termination of the original ~~contract-binding arrangement~~ and the creation of a new ~~binding arrangement~~~~contract~~.

~~IE23-IE27.~~ ~~IE24~~—Consequently, the amount ~~recognised~~~~recognized~~ as revenue for each of the remaining products is a blended price of CU93.33  $\{[(CU100 \times 60\text{-products not yet transferred under the original } \text{contract-binding arrangement}) + (CU80 \times 30\text{-products to be transferred under the } \text{contract-modification to a binding arrangement} \text{modification})] \div 90\text{-remaining products}\}$ .

Example ~~6~~—Change in the ~~T~~transaction ~~p~~Price after a ~~contract-Modification to a Binding Arrangement~~  
~~modification~~

~~IE24-IE28.~~ ~~IE25~~—On ~~1~~~~July 1,~~20X0, an entity promises to transfer two distinct products to a ~~purchasercustomer~~. Product~~-~~X transfers to the ~~purchasercustomer~~ at ~~contract-the inception of the binding arrangement~~ ~~inception~~ and Product~~-~~Y transfers on ~~31~~~~March 31,~~20X1. The consideration promised by the ~~purchaser\_customer~~ includes fixed consideration of CU1,000 and variable consideration that is estimated to be CU200. The entity includes its estimate of variable consideration in the transaction price because it concludes that it is highly probable that a significant reversal in cumulative revenue ~~recognised~~~~recognized~~ will not occur when the uncertainty is resolved.

~~IE25-IE29.~~ ~~IE26~~—The transaction price of CU1,200 is allocated equally to the performance obligation for Product~~-~~X and the performance obligation for Product~~-~~Y. This is because both products have the same stand-alone selling prices and the variable consideration does not meet the criteria in paragraph ~~86~~~~85~~ that requires allocation of the variable consideration to one but not both of the performance obligations.

~~IE26-IE30.~~ ~~IE27~~—When Product~~-~~X transfers to the ~~purchasercustomer~~ at ~~contract-the inception of the binding arrangement~~ ~~inception~~, the entity ~~recognises~~~~recognizes~~ revenue of CU600.

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~~IE27-IE31.~~ ~~IE28~~— On 30 November 30, 20X0, the scope of the ~~contract-binding arrangement~~ is modified to include the promise to transfer Product\_Z (in addition to the undelivered Product\_Y) to the ~~customer-purchaser~~ on 30 June 30, 20X1 and the price of the ~~contract-binding arrangement~~ is increased by CU300 (fixed consideration), which does not represent the stand-alone selling price of Product\_Z. The stand-alone selling price of Product\_Z is the same as the stand-alone selling prices of Products\_X and\_Y.

~~IE28-IE32.~~ ~~IE29~~— The entity accounts for the modification as if it were the termination of the existing ~~contract-binding arrangement~~ and the creation of a new ~~binding arrangement contract~~. This is because the remaining Products\_Y and\_Z are distinct from Product\_X, which had transferred to the ~~purchaser customer~~ before the modification, and the promised consideration for the additional Product\_Z does not represent its stand-alone selling price. Consequently, in accordance with paragraph 22(a) ~~21(a)~~ of ~~[draft] IPSAS [X] (ED XX) IFRS-15~~, the consideration to be allocated to the remaining performance obligations comprises the consideration that had been allocated to the performance obligation for Product\_Y (which is measured at an allocated transaction price amount of CU600) and the consideration promised in the modification (fixed consideration of CU300). The transaction price for the modified ~~contract-binding arrangement~~ is CU900 and that amount is allocated equally to the performance obligation for Product\_Y and the performance obligation for Product\_Z (ie CU450 is allocated to each performance obligation).

~~IE29-IE33.~~ ~~IE30~~— After the modification but before the delivery of Products\_Y and\_Z, the entity revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240 (rather than the previous estimate of CU200). The entity concludes that the change in estimate of the variable consideration can be included in the transaction price, because it is highly probable that a significant reversal in cumulative revenue ~~recognised~~ ~~recognized~~ will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing ~~contract-binding arrangement~~ and the creation of a new ~~binding arrangement contract~~ in accordance with paragraph 22(a) ~~21(a)~~ of ~~[draft] IPSAS [X] (ED XX) IFRS-15~~, the increase in the transaction price of CU40 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 91 ~~90~~ of ~~[draft] IPSAS [X] (ED XX) IFRS-15~~, the change in the transaction price is allocated to the performance obligations for Product\_X and Product\_Y on the same basis as at ~~the inception of the contract-binding arrangement~~ ~~inception~~. Consequently, the entity ~~recognises~~ ~~recognizes~~ revenue of CU20 for Product\_X in the period in which the change in the transaction price occurs. Because Product\_Y had not transferred to the ~~purchaser customer~~ before the ~~contract-modification to a binding arrangement~~ ~~modification~~, the change in the transaction price that is attributable to Product\_Y is allocated to the remaining performance obligations at the time of the ~~contract-modification to a binding arrangement~~ ~~modification~~. This is consistent with the accounting that would have been required by paragraph 22(a) ~~21(a)~~ of ~~[draft] IPSAS [X] (ED XX) IFRS-15~~ if that amount of variable consideration had been estimated and included in the transaction price at the time of the ~~contract-modification of a binding arrangement~~ ~~modification~~.

~~IE30-IE34.~~ ~~IE31~~— The entity also allocates the CU20 increase in the transaction price for the modified ~~contract-binding arrangement~~ equally to the performance obligations for Product\_Y and Product\_Z. This is because the products have the same stand-alone selling prices and the variable consideration does not meet the criteria in paragraph 86 ~~85~~ that require allocation of the variable consideration to one but not both of the performance obligations. Consequently, the amount of the

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transaction price allocated to the performance obligations for Product\_Y and Product\_Z increases by CU10 to CU460 each.

~~IE31-IE35.~~ ~~IE32.~~— On ~~31~~ March ~~31~~, 20X1, Product\_Y is transferred to the ~~purchaser~~ customer and the entity ~~recognises~~ recognizes revenue of CU460. On ~~30~~ June ~~30~~, 20X1, Product\_Z is transferred to the ~~purchaser~~ customer and the entity ~~recognises~~ recognizes revenue of CU460.

*Example 7—Modification of a Binding Arrangement of Services*

~~IE32-IE36.~~ ~~IE36.~~— An entity enters into a three-year contract-binding arrangement with a purchaser to clean a customer's offices on a weekly basis. The ~~customer-purchaser~~ promises to pay CU100,000 per year. The stand-alone selling price of the services at contract-the inception of the binding arrangement inception is CU100,000 per year. The entity ~~recognises~~ recognizes revenue of CU100,000 per year during the first two years of providing services. At the end of the second year, the contract-binding arrangement is modified and the fee for the third year is reduced to CU80,000. In addition, the ~~purchaser~~ customer agrees to extend the contract-binding arrangement for three additional years for consideration of CU200,000 payable in three equal annual instalments of CU66,667 at the beginning of years 4, 5 and 6. After the modification, the contract-binding arrangement has four years remaining in exchange for total consideration of CU280,000. The stand-alone selling price of the services at the beginning of the third year is CU80,000 per year. The entity's stand-alone selling price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone selling price of the multi-year contract-binding arrangement (ie the stand-alone selling price is 4 years × CU80,000 per year = CU320,000).

~~IE33-IE37.~~ ~~IE34.~~— At contract-the inception of the binding arrangement inception, the entity assesses that each week of cleaning service is distinct in accordance with paragraph ~~2827~~ of [draft] IPSAS [X] (ED XX) IFRS 45. Notwithstanding that each week of cleaning service is distinct, the entity accounts for the binding arrangement for cleaning services ~~contract~~ as a single performance obligation in accordance with paragraph ~~23(b)~~ 22(b) of [draft] IPSAS [X] (ED XX) IFRS 45. This is because the weekly cleaning services are a series of distinct services that are substantially the same and have the same pattern of transfer to the ~~purchaser~~ customer (the services transfer to the ~~customer-purchaser~~ over time and use the same method to measure progress—that is, a time-based measure of progress).

~~IE34-IE38.~~ ~~IE35.~~— At the date of the modification, the entity assesses the remaining services to be provided and concludes that they are distinct. However, the amount of remaining consideration to be paid (CU280,000) does not reflect the stand-alone selling price of the services to be provided (CU320,000).

~~IE35-IE39.~~ ~~IE36.~~— Consequently, the entity accounts for the modification in accordance with paragraph ~~22(a)~~ 21(a) of [draft] IPSAS [X] (ED XX) IFRS 45 as a termination of the original contract-binding arrangement and the creation of a new contract-binding arrangement with consideration of CU280,000 for four years of cleaning service. The entity ~~recognises~~ recognizes revenue of CU70,000 per year (CU280,000 ÷ 4 years) as the services are provided over the remaining four years.



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*Example 8—Modification Resulting in a ~~cumulative~~ Cumulative Catch-up adjustment Adjustment to ~~revenue~~ Revenue*

~~IE36:~~IE40. An entity, a construction company, enters into a ~~contract binding arrangement~~ to construct a commercial building for a ~~purchaser~~customer on ~~purchaser~~ customer-owned land for promised consideration of CU1 million and a bonus of CU200,000 if the building is completed within 24 months. The entity accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph ~~36(b)~~35(b) of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~ because the ~~purchaser~~ customer controls the building during construction. At the ~~inception of the~~ inception of the ~~contract binding arrangement~~, the entity expects the following:

CU	
Transaction price	1,000,000
Expected costs	700,000
Expected <del>profit</del> <del>surplus</del> (30%)	300,000

~~IE37:~~IE41. ~~IE38~~—At ~~contract the inception of the binding arrangement~~inception, the entity excludes the CU200,000 bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue ~~recognised~~recognized will not occur. Completion of the building is highly susceptible to factors outside the entity's influence, including weather and regulatory approvals. In addition, the entity has limited experience with similar types of ~~contracts binding arrangements~~.

~~IE38:~~IE42. ~~IE39~~—The entity determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation. By the end of the first year, the entity has satisfied 60 per cent of its performance obligation on the basis of costs incurred to date (CU420,000) relative to total expected costs (CU700,000). The entity reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs ~~57, 56–59~~58 of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~. Consequently, the cumulative revenue and costs ~~recognised~~recognized for the first year are as follows:

CU	
Revenue	600,000
Costs	420,000
Gross <del>profit</del> Surplus	180,000

~~IE39:~~IE43. ~~IE40~~—In the first quarter of the second year, the parties to the ~~contract binding arrangement~~ agree to modify the ~~contract binding arrangement~~ by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU150,000 and CU120,000, respectively. Total potential consideration after the modification is CU1,350,000 (CU1,150,000 fixed consideration + CU200,000 completion bonus). In addition, the allowable time



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for achieving the CU200,000 bonus is extended by 6-months to 30-months from the original ~~contract-date of inception of the binding arrangement~~~~inception-date~~. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, the entity concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue ~~recognised~~~~recognized~~ in accordance with paragraph ~~57~~~~56~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ and includes the CU200,000 in the transaction price. In assessing the ~~modification to a contract-binding arrangement~~~~modification~~, the entity evaluates paragraph ~~28(b)~~~~27(b)~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ and concludes (on the basis of the factors in paragraph ~~30~~~~29~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~) that the remaining goods and services to be provided using the modified ~~contract-binding arrangement~~ are not distinct from the goods and services transferred on or before the date of ~~contract-modification to a binding arrangement~~~~modification~~; that is, the ~~contract-binding arrangement~~ remains a single performance obligation.

~~IE40-IE44.~~ ~~IE41~~—Consequently, the entity accounts for the ~~contract-modification to a binding arrangement~~~~modification~~ as if it were part of the original ~~contract-binding arrangement~~ (in accordance with paragraph ~~22(b)~~~~24(b)~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~). The entity updates its measure of progress and estimates that it has satisfied 51.2-per-cent of its performance obligation (CU420,000 actual costs incurred ÷ CU820,000 total expected costs). The entity ~~recognises~~~~recognizes~~ additional revenue of CU91,200 [(51.2-per-cent complete × CU1,350,000 modified transaction price) – CU600,000 revenue ~~recognised~~~~recognized~~ to date] at the date of the modification as a cumulative catch-up adjustment.

*Example 9—Unapproved Change in scope-Scope and Price*

~~IE41-IE45.~~ ~~IE42~~—An entity enters into a ~~contract-binding arrangement~~ with a ~~purchasercustomer~~ to construct a building on ~~purchaser customer~~-owned land. The ~~binding arrangement~~~~contract~~ states that the ~~purchasercustomer~~ will provide the entity with access to the land within 30-days of ~~inception of the binding arrangement~~~~contract-inception~~. However, the entity was not provided access until 120-days after ~~inception of the binding arrangement~~~~contract-inception~~ because of storm damage to the site that occurred after ~~inception of the binding arrangement~~~~contract-inception~~. The ~~binding arrangement~~~~contract~~ specifically identifies any delay (including force majeure) in the entity's access to ~~purchaser customer~~-owned land as an event that entitles the entity to compensation that is equal to actual costs incurred as a direct result of the delay. The entity is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the ~~binding arrangement~~~~contract~~ and prepares a claim. The ~~purchasercustomer~~ initially disagreed with the entity's claim.

~~IE42-IE46.~~ ~~IE43~~—The entity assesses the legal basis of the claim and determines, on the basis of the underlying ~~terms of the binding arrangement~~~~contractual terms~~, that it has enforceable rights. Consequently, it accounts for the claim as a ~~modification to a binding arrangement~~~~contract modification~~ in accordance with paragraphs ~~19~~~~48~~–~~22~~~~24~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~. The modification does not result in any additional goods and services being provided to the ~~purchasercustomer~~. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, the entity accounts for the modification in accordance with paragraph ~~22(b)~~~~24(b)~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ by updating the transaction price and the measure of progress towards complete satisfaction of the performance obligation. The entity considers the constraint on estimates of variable consideration

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in paragraphs ~~57~~~~56~~~~59~~~~58~~ of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~ when estimating the transaction price.

**Identifying ~~P~~performance ~~O~~bligations**

*Illustrating the Consequences of Applying Paragraphs 23 - 31 of ~~[draft] IPSAS [X] (ED XX)~~*

IE47. The following examples illustrate the process for identifying performance obligations. The examples are not based on actual transactions.

*Example 10—Goods and ~~s~~Services are not ~~distinct~~Distinct*

*Case A—Significant ~~integration~~Integration ~~service~~Service*

~~IE43.~~IE48. ~~IE45~~—An entity, ~~a contractor,~~ enters into a contract-binding arrangement to build a hospital for a purchasercustomer. The entity is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

~~IE44.~~IE49. ~~IE46~~—The promised goods and services are capable of being distinct in accordance with paragraph ~~28(a)~~27(a) of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~. That is, the purchasercustomer can benefit or receive service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that the entity, or competitors of the entity, regularly sells many of these goods and services separately to other customerspurchasers. In addition, the purchaser customer could generate economic benefit or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

~~IE45.~~IE50. ~~IE47~~—However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph ~~28(b)~~27(b) of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~ (on the basis of the factors in paragraph ~~30~~29 of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~). This is evidenced by the fact that the entity provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the customer—purchaser has contractedentered into a binding arrangement.

~~IE46.~~IE51. ~~IE48~~—Because both criteria in paragraph ~~28~~27 of ~~[draft] IPSAS [X] (ED XX)]FRS 15~~ are not met, the goods and services are not distinct. The entity accounts for all of the goods and services in the contract-binding arrangement as a single performance obligation.

*Case B—Significant ~~i~~ntegration ~~S~~ervice*

~~IE47.~~IE52. ~~IE48A~~—An entity enters into a binding arrangementcontract with a purchaser customer that will result in the delivery of multiple units of a highly complex, specialisedspecialized device. The terms of the binding arrangementcontract require the entity to establish a manufacturing process in order to produce the contracted-units. The specifications are unique to the purchasercustomer, based on a custom design that is owned by the purchaser customer and that were developed under the terms of a separate binding arrangementcontract that is not part of the current negotiated exchange. The entity is responsible for the overall management of the binding arrangementcontract, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

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~~IE48:~~IE53. ~~IE48B~~—The entity assesses the promises in the binding arrangement~~contract~~ and determines that each of the promised devices is capable of being distinct in accordance with paragraph ~~28(a)~~27(a) of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ because the purchaser customer can benefit or receive service potential from each device on its own. This is because each unit can function independently of the other units.

~~IE49:~~IE54. ~~IE48C~~—The entity observes that the nature of its promise is to establish and provide a service of producing the full complement of devices for which the purchaser customer has entered into a binding arrangement~~contracted~~ in accordance with the purchaser customer's specifications. The entity considers that it is responsible for overall management of the binding arrangement~~contract~~ and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting devices (the combined output) and, therefore, the devices and the various promised goods and services inherent in producing those devices are not separately identifiable in accordance with paragraph ~~28(b)~~27(b) and paragraph ~~30~~29 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~. In this case, the manufacturing process provided by the entity is specific to its contract-binding arrangement with the customer purchaser. In addition, the nature of the entity's performance and, in particular, the significant integration service of the various activities means that a change in one of the entity's activities to produce the devices has a significant effect on the other activities required to produce the highly complex, specialised~~specialized~~ devices such that the entity's activities are highly interdependent and highly interrelated. Because the criterion in paragraph ~~28(b)~~27(b) of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ is not met, the goods and services that will be provided by the entity are not separately identifiable and, therefore, are not distinct. The entity accounts for all of the goods and services promised in the contract-binding arrangement as a single performance obligation.

*Example 11—Determining whether goods-Goods or services-Services are distinct~~Distinct~~*

*Case A—Distinct gGoods or Sservices*

~~IE50:~~IE55. ~~IE49~~—An entity, a software developer, enters into a contract-binding arrangement with a customer purchaser to transfer a software license~~license~~, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the license~~license~~, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

~~IE51:~~IE56. ~~IE50~~—The entity assesses the goods and services promised to the customer purchaser to determine which goods and services are distinct in accordance with paragraph ~~28~~27 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The customer purchaser can benefit or receive service potential from the updates together with the software license~~license~~ transferred at the start of the contract-binding arrangement. Thus, the entity concludes that the customer purchaser can benefit or receive service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph ~~28(a)~~27(a) of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ is met.

~~IE52:~~IE57. ~~IE51~~—The entity also considers the principle and the factors in paragraph ~~30~~29 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ and determines that the promise to transfer each good and

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service to the purchasereustomer is separately identifiable from each of the other promises (thus the criterion in paragraph 28(b)27(b) of [draft] IPSAS [X] (ED XX)IFRS-15 is met). In reaching this determination, the entity considers that, although it integrates the software into the purchasereustomer's system, the installation services do not significantly affect the purchasereustomer's ability to use and benefit or receive service potential from the software licenseelicense because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the purchasereustomer's ability to use and benefit or receive service potential from the software licenseelicense during the licenseelicense period. The entity further observes that none of the promised goods or services significantly modify or customisecustomize one another, nor is the entity providing a significant service of integrating the software and the services into a combined output. Lastly, the entity concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the entity would be able to fulfil its promise to transfer the initial software licenseelicense independently from its promise to subsequently provide the installation service, software updates or technical support.

~~IE53.~~IE58. ~~IE52.~~—On the basis of this assessment, the entity identifies four performance obligations in the contract-binding arrangement for the following goods or services:

- (a) ~~(a)~~—~~t~~The software licenseelicense;
- (b) ~~(b)~~—~~a~~An installation service;
- (c) ~~(c)~~—~~s~~Software updates; and
- (d) ~~(d)~~—~~t~~Technical support.

~~IE54.~~IE59. ~~IE53.~~—The entity applies paragraphs ~~32,34–3938~~ of [draft] IPSAS [X] (ED XX)IFRS-15 to determine whether each of the performance obligations for the installation service, software updates and technical support are satisfied at a point in time or over time. The entity also assesses the nature of the entity's promise to transfer the software licenseelicense in accordance with paragraph ~~AG104B58~~ of [draft] IPSAS [X] (ED XX)IFRS-15 (see Example ~~54~~ in paragraphs ~~IE320IE276–IE321IE277~~).

*Case B—Significant Customization*

~~IE55.~~IE60. ~~IE54.~~—The promised goods and services are the same as in Case ~~A~~, except that the contract-binding arrangement specifies that, as part of the installation service, the software is to be substantially customisedcustomized to add significant new functionality to enable the software to interface with other customisedcustomized software applications used by the purchaserecustomer. The customisedcustomized installation service can be provided by other entities.

~~IE56.~~IE61. ~~IE55.~~—The entity assesses the goods and services promised to the purchaser customer to determine which goods and services are distinct in accordance with paragraph ~~2827~~ of [draft] IPSAS [X] (ED XX)IFRS-15. The entity first assesses whether the criterion in paragraph ~~28(a)27(a)~~ has been met. For the same reasons as in Case ~~A~~, the entity determines that the software licenseelicense, installation, software updates and technical support each meet that criterion. The entity next assesses whether the criterion in paragraph ~~28(b)27(b)~~ has been met by evaluating the principle and the factors in paragraph ~~3029~~ of [draft] IPSAS [X] (ED XX)IFRS-15. The entity observes that the terms of the contract-binding arrangement result in a promise to provide a significant service of integrating the licenseelicensed software into the existing software system by performing a customisedcustomized installation service as specified in the

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~~contract~~binding arrangement. In other words, the entity is using the ~~license~~license and the ~~customised~~customized installation service as inputs to produce the combined output (ie a functional and integrated software system) specified in the ~~contract—binding arrangement~~ (see paragraph 30(a)29(a) of [draft] IPSAS [X] (ED XX) IFRS-15). The software is significantly modified and ~~customised~~customized by the service (see paragraph 30(b)29(b) of [draft] IPSAS [X] (ED XX) IFRS-15). Consequently, the entity determines that the promise to transfer the ~~license~~license is not separately identifiable from the ~~customised~~customized installation service and, therefore, the criterion in paragraph 28(b)27(b) of [draft] IPSAS [X] (ED XX) IFRS-15 is not met. Thus, the software ~~license~~license and the ~~customised~~customized installation service are not distinct.

~~IE57-IE62.~~ IE56—On the basis of the same analysis as in Case A, the entity concludes that the software updates and technical support are distinct from the other promises in the ~~contract~~binding arrangement.

~~IE58-IE63.~~ IE57—On the basis of this assessment, the entity identifies three performance obligations in the ~~binding arrangement~~contract for the following goods or services:

- (a) ~~(a)~~—~~s~~sSoftware ~~customisation~~customization (which comprises the ~~license~~license for the software and the ~~customised~~customized installation service);
- (b) ~~(b)~~—~~s~~sSoftware updates; and
- (c) ~~(c)~~—~~t~~tTechnical support.

~~IE59-IE64.~~ IE58—The entity applies paragraphs 3231–3938 of [draft] IPSAS [X] (ED XX) IFRS-15 to determine whether each performance obligation is satisfied at a point in time or over time.

Case C—Promises are ~~separately identifiable~~ (installation)

~~IE60-IE65.~~ IE58A—An entity ~~contracts—enters into a binding arrangement~~ with a ~~purchaser customer~~ to sell a piece of equipment and installation services. The equipment is operational without any ~~customisation~~customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

~~IE64-IE66.~~ IE58B—The entity identifies two promised goods and services in the ~~contract~~binding arrangement: (a) equipment and (b) installation. The entity assesses the criteria in paragraph 2827 of [draft] IPSAS [X] (ED XX) IFRS-15 to determine whether each promised good or service is distinct. The entity determines that the equipment and the installation each meet the criterion in paragraph 28(a)27(a) of [draft] IPSAS [X] (ED XX) IFRS-15. The ~~purchaser customer~~ can benefit ~~or receive service potential~~ from the equipment on its own, by using it or reselling it for an amount greater than scrap value, or together with other readily available resources (for example, installation services available from alternative providers). The ~~purchaser customer~~ also can benefit ~~or receive service potential~~ from the installation services together with other resources that the ~~purchaser customer~~ will already have obtained from the entity (ie the equipment).

~~IE62-IE67.~~ IE58C—The entity further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 28(b)27(b) of [draft] IPSAS [X] (ED XX) IFRS-15). The entity considers the principle and the factors in paragraph 3029 of [draft] IPSAS [X] (ED XX) IFRS-15 in determining that the equipment and the installation services are not inputs to a combined item in this ~~contract~~binding arrangement. In this case, each of the factors in paragraph 3029 of

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~~[draft]~~ IPSAS [X] (ED XX)IFRS-15 contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

- (a) ~~(a)~~—The entity is not providing a significant integration service. That is, the entity has promised to deliver the equipment and then install it; the entity would be able to fulfil its promise to transfer the equipment separately from its promise to subsequently install it. The entity has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.
- (b) ~~(b)~~—The entity's installation services will not significantly ~~customise~~customize or significantly modify the equipment.
- (c) ~~(c)~~—Although the ~~purchaser~~customer can benefit ~~or receive service potential~~ from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the entity would be able to fulfil its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

~~IE63-IE68.~~ On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:

- (i) ~~(i)~~—~~The~~ equipment; and
- (ii) ~~(ii)~~—~~the~~ installation services.

~~IE64-IE69.~~ ~~IE58D~~—The entity applies paragraphs 32-31-3938 of ~~[draft]~~ IPSAS [X] (ED XX)IFRS-15 to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are ~~s~~Separately identifiable—~~Identifiable~~ (~~contractual—Restrictions to a Binding Arrangement~~restrictions)

~~IE65-IE70.~~ ~~IE58E~~—Assume the same facts as in Case C, except that the ~~customer—purchaser~~ is ~~contractually~~ required to use the entity's installation services ~~in the binding arrangement~~.

~~IE66-IE71.~~ ~~IE58F~~—The ~~contractual binding arrangement~~ requirement to use the entity's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the ~~contractual binding arrangement~~ requirement to use the entity's installation services does not change the characteristics of the goods or services themselves, nor does it change the entity's promises to the ~~customer~~purchaser. Although the ~~customer—purchaser~~ is required to use the entity's installation services, the equipment and the installation services are capable of being distinct (ie they each meet the criterion in paragraph—28(a)~~27(a)~~ of ~~[draft]~~ IPSAS [X] (ED XX)IFRS-15) and the entity's promises to provide the equipment and to provide the installation services are each separately identifiable, ie they each meet the criterion in paragraph 28(b)~~27(b)~~ of ~~[draft]~~ IPSAS [X] (ED XX)IFRS-15. The entity's analysis in this regard is consistent with that in Case C.

Case E—Promises are ~~s~~Separately ~~i~~Identifiable (~~e~~Consumables)

~~IE67-IE72.~~ ~~IE58G~~—An entity enters into a ~~contract binding arrangement~~ with a ~~customer—purchaser~~ to provide a piece of off-the-shelf equipment (ie the equipment is operational without any significant ~~customisation~~customization or modification) and to provide ~~specialised~~specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the entity, but are sold separately by the entity.

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~~IE68-IE73.~~ ~~IE58H~~—The entity determines that the ~~purchasercustomer~~ can benefit or receive service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph ~~2928~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, because they are regularly sold separately by the entity (ie through refill orders to ~~customers-purchasers~~ that previously purchased the equipment). The ~~purchaser customer~~ can benefit or receive service potential from the consumables that will be delivered under the contract binding arrangement together with the delivered equipment that is transferred to the ~~purchasercustomer~~ initially under the contractbinding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph ~~28(a)27(a)~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~.

~~IE69-IE74.~~ ~~IE58I~~—The entity determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph ~~28(b)27(b)~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. In determining that the equipment and the consumables are not inputs to a combined item in this contractbinding arrangement, the entity considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly ~~customisedcustomized~~ or modified by the other. Lastly, the entity concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the ~~customer-purchaser~~ can benefit or receive service potential from the consumables in this contract-binding arrangement only after it has obtained control of the equipment (ie the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the entity would be able to fulfil each of its promises in the contract-binding arrangement independently of the other. That is, the entity would be able to fulfil its promise to transfer the equipment even if the ~~purchaser customer~~ did not purchase any consumables and would be able to fulfil its promise to provide the consumables, even if the ~~purchasercustomer~~ acquired the equipment separately.

~~IE70-IE75.~~ ~~IE58J~~—On the basis of this assessment, the entity identifies two performance obligations in the contract-binding arrangement for the following goods or services:

- (a) ~~(a)~~—~~t~~The equipment; and
- (b) ~~(b)~~—~~t~~The consumables.

~~IE71-IE76.~~ ~~IE58K~~—The entity applies paragraphs ~~32,31-3938~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ to determine whether each performance obligation is satisfied at a point in time or over time.

*Example 12—Explicit and ~~i~~Implicit ~~promises-Promises~~ in a contractBinding Arrangement*

~~IE72-IE77.~~ ~~a~~—An entity, ~~a~~-manufacturer~~s and~~, sells a product to a distributor (ie its ~~customerpurchaser~~) who will then resell it to an end ~~customerpurchaser~~.

*Case A—Explicit ~~p~~Promise of serviceService*

~~IE73-IE78.~~ ~~IE60~~—In the contract-binding arrangement with the ~~distributorpurchaser~~, the entity promises to provide maintenance services for no additional consideration (ie 'free') to any party (ie the end ~~-purchasercustomer~~) that purchases the product from the ~~distributorpurchaser~~. The entity outsources the performance of the maintenance services to the ~~purchaserdistributor~~ and pays the ~~purchaserdistributor~~ an agreed-upon amount for providing those services on the entity's behalf. If



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the end purchaser customer does not use the maintenance services, the entity is not obliged to pay the purchaser distributor.

~~IE74-IE79.~~ ~~IE61~~—The contract-binding arrangement with the purchaser customer includes two promised goods or services—(a) the product and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the entity and the purchaser distributor. The entity assesses whether each good or service is distinct in accordance with paragraph ~~2827~~ of [draft] IPSAS [X] (ED XX) IFRS-15. The entity determines that both the product and the maintenance services meet the criterion in paragraph ~~28(a)27(a)~~ of [draft] IPSAS [X] (ED XX) IFRS-15. The entity regularly sells the product on a stand-alone basis, which indicates that the purchaser customer can benefit or receive service potential from the product on its own. The purchaser customer can benefit or receive service potential from the maintenance services together with a resource the purchaser customer already has obtained from the entity (ie the product).

~~IE75-IE80.~~ ~~IE64A~~—The entity further determines that its promises to transfer the product and to provide the maintenance services are separately identifiable (in accordance with paragraph ~~28(b)27(b)~~ of [draft] IPSAS [X] (ED XX) IFRS-15) on the basis of the principle and the factors in paragraph ~~3029~~ of [draft] IPSAS [X] (ED XX) IFRS-15. The product and the maintenance services are not inputs to a combined item in the contract-binding arrangement. The entity is not providing a significant integration service because the presence of the product and the services together in this contract-binding arrangement do not result in any additional or combined functionality. In addition, neither the product nor the services modify or customise/customize the other. Lastly, the product and the maintenance services are not highly interdependent or highly interrelated because the entity would be able to fulfil each of the promises in the contract-binding arrangement independently of its efforts to fulfil the other (ie the entity would be able to transfer the product even if the customer-purchaser declined maintenance services and would be able to provide maintenance services in relation to products sold previously through other distributors). The entity also observes, in applying the principle in paragraph ~~3029~~ of [draft] IPSAS [X] (ED XX) IFRS-15, that the entity's promise to provide maintenance is not necessary for the product to continue to provide significant benefit or service potential to the customer-purchaser. Consequently, the entity allocates a portion of the transaction price to each of the two performance obligations (ie the product and the maintenance services) in the contract-binding arrangement.

*Case B—Implicit Promise of service/Service*

~~IE76-IE81.~~ ~~IE62~~—The entity has historically provided maintenance services for no additional consideration (ie 'free') to end customers-purchasers that purchase the entity's product from the purchaser distributor. The entity does not explicitly promise maintenance services during negotiations with the distributor and the final contract-binding arrangement between the entity and the distributor does not specify terms or conditions for those services.

~~IE77-IE82.~~ ~~IE63~~—However, on the basis of its customary business practice, the entity determines at the inception of the contract-binding arrangement~~inception~~ that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the purchaser distributor. That is, the entity's past practices of providing these services create valid expectations of the entity's customers-purchasers (ie the distributor and end customers-purchasers) in accordance with paragraph ~~2524~~ of [draft] IPSAS [X] (ED XX) IFRS-15. Consequently, the entity assesses whether the promise of maintenance services is a performance obligation. For the same reasons as in



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Case A, the entity determines that the product and maintenance services are separate performance obligations.

Case C—Services are not a promised service.

~~IE78-IE83.~~ ~~IE64~~—In the ~~binding arrangement~~ contract with the ~~purchaser~~ distributor, the entity does not promise to provide any maintenance services. In addition, the entity typically does not provide maintenance services and, therefore, the entity's customary ~~business~~ practices, published policies and specific statements at the time of entering into the ~~binding arrangement~~ contract have not created an implicit promise to provide goods or services to its ~~customers~~ purchasers. The entity transfers control of the product to the ~~purchaser~~ distributor and, therefore, the ~~binding arrangement~~ contract is completed. However, before the sale to the end ~~purchaser~~ customer, the entity makes an offer to provide maintenance services to any party that purchases the product from the ~~purchaser~~ distributor for no additional promised consideration.

~~IE79-IE84.~~ ~~IE65~~—The promise of maintenance is not included in the ~~binding arrangement~~ contract between the entity and the ~~purchaser~~ distributor at ~~the inception of the binding arrangement~~ contract inception. That is, in accordance with paragraph ~~25~~24 of ~~[draft] IPSAS [X] (ED XX)~~ IFRS 15, the entity does not explicitly or implicitly promise to provide maintenance services to the ~~purchaser~~ distributor or the end ~~customers~~ purchasers. Consequently, the entity does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with ~~IPSAS 37-19~~ Provisions, Contingent Liabilities and Contingent Assets.

~~IE80-IE85.~~ ~~IE65A~~—Although the maintenance services are not a promised service in the current ~~contract~~ binding arrangement, in future ~~contracts~~ binding arrangements with ~~customers~~ purchasers the entity would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

**Performance Obligations ~~satisfied~~ Satisfied over Over time Time**

*Illustrating the Consequences of Applying Paragraphs 36 - 39 and AG45 - AG56 of [draft] IPSAS [X] (ED XX).*

~~IE86.~~ The following examples illustrate the requirements for performance obligations satisfied over time and performance obligations satisfied at a point in time. The examples are not based on actual transactions.

*Example 13—Customer Purchaser ~~s~~ Simultaneously receives Receives and consumes Consumes the benefits Benefits or Service Potential*

~~IE81-IE87.~~ An entity enters into a ~~contract~~ binding arrangement to provide monthly payroll processing services to a ~~purchaser~~ customer for one year.

~~IE82-IE88.~~ ~~IE68~~—The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph ~~23(b)~~22(b) of ~~[draft] IPSAS [X] (ED XX)~~ IFRS 15. The performance obligation is satisfied over time in accordance with paragraph ~~36(a)~~35(a) of ~~[draft] IPSAS [X] (ED XX)~~ IFRS 15 because the ~~customer~~ purchaser simultaneously receives and consumes the benefits ~~or service potential~~ of the entity's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the entity has provided to date also demonstrates that the customer simultaneously receives and

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consumes the benefits or service potential of the entity's performance as the entity performs. (The entity disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The entity ~~recognises~~recognizes revenue over time by measuring its progress towards complete satisfaction of that performance obligation in accordance with paragraphs ~~40, 39, 46~~45 and AG57, ~~B14, AG62B19~~ of [draft] IPSAS [X] (ED XX) IFRS-15.

*Example 14—Assessing ~~use~~ Use and ~~right~~ Right to payment*

~~IE83, IE89.~~ IE89. An entity enters into a contract-binding arrangement with a customer-purchaser to provide a consulting service that results in the entity providing a professional opinion to the customer-purchaser. The professional opinion relates to facts and circumstances that are specific to the purchaser-customer. If the purchaser-customer were to terminate the consulting-contract binding arrangement for consulting services for reasons other than the entity's failure to perform as promised, the contract-binding arrangement requires the purchaser-customer to compensate the entity for its costs incurred plus a 15\_per\_cent margin. The 15\_per\_cent margin approximates the profit-margin that the entity earns from similar contracts-binding arrangements.

~~IE84, IE90.~~ IE90. ~~IE70~~—The entity considers the criterion in paragraph ~~36(a)~~35(a) of [draft] IPSAS [X] (ED XX) IFRS-15 and the requirements in paragraphs ~~AG46B3 and AG47B4~~ of [draft] IPSAS [X] (ED XX) IFRS-15 to determine whether the purchaser-customer simultaneously receives and consumes the benefits or service potential of the entity's performance. If the entity were to be unable to satisfy its obligation and the customer-purchaser hired another consulting firm to provide the opinion, the other consulting firm would need to substantially re-perform the work that the entity had completed to date, because the other consulting firm would not have the benefit or service potential of any work in progress performed by the entity. The nature of the professional opinion is such that the purchaser-customer will receive the benefits or service potential of the entity's performance only when the purchaser-customer receives the professional opinion. Consequently, the entity concludes that the criterion in paragraph ~~36(a)~~35(a) of [draft] IPSAS [X] (ED XX) IFRS-15 is not met.

~~IE85, IE91.~~ IE91. ~~IE71~~—However, the entity's performance obligation meets the criterion in paragraph ~~36(c)~~35(e) of [draft] IPSAS [X] (ED XX) IFRS-15 and is a performance obligation satisfied over time because of both of the following factors:

- (a) ~~(a)~~—in accordance with paragraphs ~~37~~36 and AG49, ~~B6, AG51B8~~ of [draft] IPSAS [X] (ED XX) IFRS-15, the development of the professional opinion does not create an asset with alternative use to the entity because the professional opinion relates to facts and circumstances that are specific to the purchaser-customer. Therefore, there is a practical limitation on the entity's ability to readily direct the asset to another purchaser-customer.
- (b) ~~(b)~~—in accordance with paragraphs ~~38~~37 and AG52, ~~B9, AG56B13~~ of [draft] IPSAS [X] (ED XX) IFRS-15, the entity has an enforceable right to payment for its performance completed to date for its costs plus a reasonable margin, if applicable, which approximates the profit-margin in other contracts-binding arrangements.

~~IE86, IE92.~~ IE92. ~~IE72~~—Consequently, the entity ~~recognises~~recognizes revenue over time by measuring the progress towards complete satisfaction of the performance obligation in accordance with paragraphs ~~40, 39, 46~~45 and AG57, ~~B14, AG62B19~~ of [draft] IPSAS [X] (ED XX) IFRS-15.

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*Example 15—Asset has no ~~an~~ Alternative use Use to the entity Entity*

~~IE87.~~~~IE93.~~ An entity enters into a ~~contract-binding arrangement~~ with a ~~purchaser customer~~, a government agency, to build a ~~specialised~~~~specialized~~ satellite. The entity builds satellites for various ~~customers~~~~purchasers~~, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each ~~purchaser customer~~'s needs and the type of technology that is incorporated into the satellite.

~~IE88.~~~~IE94.~~ ~~IE74~~—At ~~contract the inception of the binding arrangement~~~~inception~~, the entity assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph ~~36~~~~35~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~.

~~IE89.~~~~IE95.~~ ~~IE75~~—As part of that assessment, the entity considers whether the satellite in its completed state will have an alternative use to the entity. Although the ~~contract binding arrangement~~ does not preclude the entity from directing the completed satellite to another ~~purchaser customer~~, the entity would incur significant costs to rework the design and function of the satellite to direct that asset to another ~~purchaser customer~~. Consequently, the asset has no alternative use to the entity (see paragraphs ~~36~~~~(c)35(e)~~, ~~37~~~~36~~ and AG49 ~~B6~~~~—AG51B8~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~) because the ~~purchaser customer~~-specific design of the satellite limits the entity's practical ability to readily direct the satellite to another ~~purchaser customer~~.

~~IE90.~~~~IE96.~~ ~~IE76~~—For the entity's performance obligation to be satisfied over time when building the satellite, paragraph ~~36~~~~(c)35(e)~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ also requires the entity to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

*Example 16—Enforceable ~~Right~~ to ~~payment~~ Payment for ~~performance~~ Performance completed Completed to date Date*

~~IE91.~~~~IE97.~~ An entity enters into a ~~contract-binding arrangement~~ with a ~~purchaser customer~~ to build an item of equipment. The payment schedule in the ~~binding arrangement~~~~contract~~ specifies that the ~~purchaser customer~~ must make an advance payment ~~at—at the inception of the binding arrangement~~~~contract~~ inception of 10 ~~per—cent~~ of the ~~agreed price of the binding arrangement~~~~contract—price~~, regular payments throughout the construction period (amounting to 50 ~~per—cent~~ of the ~~agreed price of the binding arrangement~~~~contract—price~~) and a final payment of 40 ~~per—cent~~ of the ~~agreed price of the binding arrangement~~ ~~contract—price~~ after construction is completed and the equipment has passed the prescribed performance tests. The payments are non ~~—refundable~~ unless the entity fails to perform as promised. If the ~~customer purchaser~~ terminates the ~~binding arrangement~~~~contract~~, the entity is entitled only to retain any progress payments received from the ~~purchaser customer~~. The entity has no further rights to compensation from the ~~purchaser customer~~.

~~IE92.~~~~IE98.~~ ~~IE78~~—At ~~contract the inception of the binding arrangement~~~~inception~~, the entity assesses whether its performance obligation to build the equipment is a performance obligation satisfied over time in accordance with paragraph ~~36~~~~35~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~.

~~IE93.~~~~IE99.~~ ~~IE79~~—As part of that assessment, the entity considers whether it has an enforceable right to payment for performance completed to date in accordance with paragraphs ~~36~~~~(c)35(e)~~, ~~38~~~~37~~ and AG52 ~~B9~~~~—AG56B43~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ if the ~~purchaser customer~~ were to terminate the ~~contract-binding arrangement~~ for reasons other than the entity's failure to perform as promised. Even though the payments made by the ~~purchaser customer~~ are non-refundable, the

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cumulative amount of those payments is not expected, at all times throughout the ~~contract-binding arrangement~~, to at least correspond to the amount that would be necessary to compensate the entity for performance completed to date. This is because at various times during construction the cumulative amount of consideration paid by the ~~purchasercustomer~~ might be less than the selling price of the partially completed item of equipment at that time. Consequently, the entity does not have a right to payment for performance completed to date.

~~IE94-IE100.~~ ~~IE80~~—Because the entity does not have a right to payment for performance completed to date, the entity's performance obligation is not satisfied over time in accordance with paragraph ~~36(c)35(e)~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~. Accordingly, the entity does not need to assess whether the equipment would have an alternative use to the entity. The entity also concludes that it does not meet the criteria in paragraph ~~36(a)35(a)~~ or ~~(b)(b)~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~ and thus, the entity accounts for the construction of the equipment as a performance obligation satisfied at a point in time in accordance with paragraph ~~3938~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~.

*Example 17—Assessing ~~wWhether~~ a ~~performance-Performance obligation-Obligation~~ is ~~satisfied-Satisfied~~ at a ~~point-Point~~ in ~~time-Time~~ or ~~over-Over timeTime~~*

~~IE95-IE101.~~ An entity is developing a multi-unit residential complex. A ~~purchasercustomer~~ enters into a ~~binding-sales-contract-binding arrangement~~ with the entity for a specified unit that is under construction. Each unit has a similar floor plan and is of a similar size, but other attributes of the units are different (for example, the location of the unit within the complex).

Case A—Entity does not have an ~~eEnforceable~~ ~~right-Right~~ to ~~payment-Payment~~ for ~~pPerformance~~ ~~completed-Completed~~ to ~~dateDate~~

~~IE96-IE102.~~ ~~IE82~~—The customer pays a deposit upon entering into the ~~contract-binding arrangement~~ and the deposit is refundable only if the entity fails to complete construction of the unit in accordance with the ~~contract-binding arrangement~~. The remainder of the ~~contract-binding arrangement~~ price is payable on completion of the ~~contract-binding arrangement~~ when the customer obtains physical possession of the unit. If the customer defaults on the ~~contract-binding arrangement~~ before completion of the unit, the entity only has the right to retain the deposit.

~~IE97-IE103.~~ ~~IE83~~—At ~~contract-binding arrangement~~ inception, the entity applies paragraph ~~36(c)35(e)~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~ to determine whether its promise to construct and transfer the unit to the customer is a performance obligation satisfied over time. The entity determines that it does not have an enforceable right to payment for performance completed to date because, until construction of the unit is complete, the entity only has a right to the deposit paid by the customer. Because the entity does not have a right to payment for work completed to date, the entity's performance obligation is not a performance obligation satisfied over time in accordance with paragraph ~~36(c)35(e)~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~. Instead, the entity accounts for the sale of the unit as a performance obligation satisfied at a point in time in accordance with paragraph ~~3938~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~.

Case ~~B~~—Entity has an ~~eEnforceable~~ ~~right-Right~~ to ~~payment-Payment~~ for ~~performance-Performance~~ ~~completed-Completed~~ to ~~dateDate~~

~~IE98-IE104.~~ ~~IE84~~—The ~~purchasercustomer~~ pays a non-refundable deposit upon entering into the ~~contract-binding arrangement~~ and will make progress payments during construction of the unit. The ~~binding arrangement-contract~~ has substantive terms that preclude the entity from being able to

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direct the unit to another purchaser customer. In addition, the purchaser customer does not have the right to terminate the binding arrangement contract unless the entity fails to perform as promised. If the purchaser customer defaults on its obligations by failing to make the promised progress payments as and when they are due, the entity would have a right to all of the consideration promised in the binding arrangement contract if it completes the construction of the unit. The courts have previously upheld similar rights that entitle developers to require the purchaser customer to perform, subject to the entity meeting its obligations under the binding arrangement contract.

~~IE99-IE105.~~ ~~IE85~~—At the inception of the binding arrangement contract inception, the entity applies paragraph ~~36(c)~~<sup>35(e)</sup> of [draft] IPSAS [X] (ED XX) IFRS 15 to determine whether its promise to construct and transfer the unit to the purchaser customer is a performance obligation satisfied over time. The entity determines that the asset (unit) created by the entity's performance does not have an alternative use to the entity because the binding arrangement contract precludes the entity from transferring the specified unit to another purchaser customer. The entity does not consider the possibility of a contract termination of a binding arrangement in assessing whether the entity is able to direct the asset to another purchaser customer.

~~IE100-IE106.~~ ~~IE86~~—The entity also has a right to payment for performance completed to date in accordance with paragraphs ~~38~~<sup>37</sup> and AG52 ~~B9~~—AG56<sup>B13</sup> of [draft] IPSAS [X] (ED XX) IFRS 15. This is because if the purchaser customer were to default on its obligations, the entity would have an enforceable right to all of the consideration promised under the contract binding arrangement if it continues to perform as promised.

~~IE101-IE107.~~ ~~IE87~~—Therefore, the terms of the contract binding arrangement and the practices in the legal jurisdiction indicate that there is a right to payment for performance completed to date. Consequently, the criteria in paragraph ~~36(c)~~<sup>35(e)</sup> of [draft] IPSAS [X] (ED XX) IFRS 15 are met and the entity has a performance obligation that it satisfies over time. To ~~recognise~~<sup>recognize</sup> revenue for that performance obligation satisfied over time, the entity measures its progress towards complete satisfaction of its performance obligation in accordance with paragraphs ~~40~~<sup>39</sup>—~~46~~<sup>45</sup> and AG57 ~~B14~~—AG62<sup>B19</sup> of [draft] IPSAS [X] (ED XX) IFRS 15.

~~IE102-IE108.~~ ~~IE88~~—In the construction of a multi-unit residential complex, the entity may have many contracts binding arrangements with individual customers purchasers for the construction of individual units within the complex. The entity would account for each binding arrangement contract separately. However, depending on the nature of the construction, the entity's performance in undertaking the initial construction works (ie the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its performance obligations in each binding arrangement contract.

Case C—Entity has an ~~enforceable right~~<sup>Right</sup> to ~~payment~~<sup>Payment</sup> for ~~performance~~<sup>Performance</sup> ~~completed~~<sup>Completed</sup> to date<sup>Date</sup>

~~IE103-IE109.~~ ~~IE89~~—The same facts as in Case B apply to Case C, except that in the event of a default by the purchaser customer, either the entity can require the purchaser customer to perform as required under the contract binding arrangement or the entity can cancel the contract binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the contract agreed price in the binding arrangement<sup>price</sup>.

~~IE104-IE110.~~ ~~IE90~~—Notwithstanding that the entity could cancel the contract binding arrangement (in which case the purchaser customer's obligation to the entity would be limited to transferring control

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of the partially completed asset to the entity and paying the penalty prescribed), the entity has a right to payment for performance completed to date because the entity could also choose to enforce its rights to full payment under the contract-binding arrangement. The fact that the entity may choose to cancel the contract-binding arrangement in the event the purchaser/customer defaults on its obligations would not affect that assessment (see paragraph ~~AG54B14~~ of [draft] IPSAS [X] (ED XX) ~~IFRS 15~~), provided that the entity's rights to require the purchaser/customer to continue to perform as required under the contract-binding arrangement (ie pay the promised consideration) are enforceable.

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

*Illustrating the Consequences of Applying Paragraphs 40 - 46 and AG62 of [draft] IPSAS [X] (ED XX).*

IE111. The following examples illustrate the requirements for measuring progress towards complete satisfaction of a performance obligations satisfied over time. The examples are not based on actual transactions.

*Example 18—Measuring ~~p~~Progress ~~when when making~~ Making ~~g~~Goods or ~~services~~ Services available*

~~IE105-~~IE112. An entity, an owner and manager of health clubs, enters into a contract-binding arrangement with a purchaser/customer for one year of access to any of its health clubs. The purchaser/customer has unlimited use of the health clubs and promises to pay CU100\_per\_month.

~~IE106-~~IE113. ~~IE93~~—The entity determines that its promise to the purchaser/customer is to provide a service of making the health clubs available for the purchaser/customer to use as and when the purchaser/customer wishes. This is because the extent to which the purchaser/customer uses the health clubs does not affect the amount of the remaining goods and services to which the purchaser/customer is entitled. The entity concludes that the purchaser/customer simultaneously receives and consumes the benefits or service potential of the entity's performance as it performs by making the health clubs available. Consequently, the entity's performance obligation is satisfied over time in accordance with paragraph ~~36(a)~~35(a) of [draft] IPSAS [X] (ED XX) ~~IFRS 15~~.

~~IE107-~~IE114. ~~IE94~~—The entity also determines that the purchaser/customer benefits or receives service potential from the entity's service of making the health clubs available evenly throughout the year. (That is, the purchaser/customer benefits from having the health clubs available, regardless of whether the purchaser/customer uses it or not.) Consequently, the entity concludes that the best measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure and it ~~recognises~~recognizes revenue on a straight-line basis throughout the year at CU100\_per\_month.

*Example 19—Uninstalled ~~m~~Materials*

~~IE108-~~IE115. ~~IE95~~—In November\_20X2, an entity ~~contracts-~~enters into a binding arrangement with a customer-purchaser to refurbish a 3-storey building and install new elevators for total consideration of CU5\_million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are CU4\_million, including CU1.5\_million for the elevators. The entity determines that it acts as a principal in accordance with

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paragraphs AG77B34–AG85B38 of [draft] IPSAS [X] (ED XX)IFRS 15, because it obtains control of the elevators before they are transferred to the purchasercustomer.

IE109-IE116. IE96—A summary of the transaction price and expected costs is as follows:

CU	
Transaction price	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

IE110-IE117. IE97—The entity uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. The entity assesses whether the costs incurred to procure the elevators are proportionate to the entity's progress in satisfying the performance obligation, in accordance with paragraph AG62B49 of [draft] IPSAS [X] (ED XX)IFRS 15. The purchasercustomer obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the performance obligation (CU4 million). The entity is not involved in designing or manufacturing the elevators.

IE111-IE118. IE98—The entity concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with paragraph AG62B49 of [draft] IPSAS [X] (ED XX)IFRS 15, the entity adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. The entity recognisesrecognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (ie at a zero margin).

IE112-IE119. IE99—As of 31 December 31, 20X2 the entity observes that:

- (a) (a) — Other costs incurred (excluding elevators) are CU500,000; and
- (b) (b) — Performance is 20 per cent complete (ie CU500,000 ÷ CU2,500,000).



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~~IE113-IE120.~~ ~~IE100~~—Consequently, at ~~31~~-December ~~31~~-, 20X2, the entity ~~recognises~~recognizes the following:

	CU
Revenue	2,200,000 <sup>(a)7</sup>
Cost of goods sold	2,000,000 <sup>(b)8</sup>
Profit	<u>200,000</u>
<sup>9</sup>	
<sup>10</sup>	

**Variable ~~c~~Consideration**

Illustrating the Consequences of Applying Paragraphs 51 - 55 of [draft] IPSAS [X] (ED XX).

~~IE121.~~ The following examples illustrate the requirements for identifying variable consideration. The examples are not based on actual transactions.

*Example 20—Penalty ~~g~~Gives rise-Rise to variable-Variable consideration~~Consideration~~*

~~IE114-IE122.~~ An entity enters into a contract-binding arrangement with a purchaser customer to build an asset for CU1-million. In addition, the terms of the binding arrangement~~contract~~ include a penalty of CU100,000 if the construction is not completed within three-months of a date specified in the binding arrangement~~contract~~.

~~IE115-IE123.~~ ~~IE103~~—The entity concludes that the consideration promised in the binding arrangement~~contract~~ includes a fixed amount of CU900,000 and a variable amount of CU100,000 (arising from the penalty).

~~IE116-IE124.~~ ~~IE104~~—The entity estimates the variable consideration in accordance with paragraphs ~~51, 50~~–~~55~~<sup>54</sup> of [draft] IPSAS [X] (ED XX)~~IFRS 15~~ and considers the requirements in paragraphs ~~57, 56~~–~~59~~<sup>58</sup> of [draft] IPSAS [X] (ED XX)~~IFRS 15~~ on constraining estimates of variable consideration.

*Example 21—Estimating ~~v~~Variable consideration~~Consideration~~*

~~IE117-IE125.~~ An entity enters into a contract-binding arrangement with a customer-purchaser to build a customised~~customized~~ asset. The promise to transfer the asset is a performance obligation that is satisfied over time. The promised consideration is CU2.5-million, but that amount will be reduced or increased depending on the timing of completion of the asset. Specifically, for each day after ~~31~~ March ~~31~~-, 20X7 that the asset is incomplete, the promised consideration is reduced by CU10,000. For each day before ~~31~~ March ~~31~~-, 20X7 that the asset is complete, the promised consideration increases by CU10,000.

<sup>7</sup> Revenue recognized is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction price – CU1,500,000 costs of elevators.)

<sup>8</sup> Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

<sup>9</sup> <sup>(a)</sup> Revenue recognised is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction price – CU1,500,000 costs of elevators.)

<sup>10</sup> <sup>(b)</sup> Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.



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~~IE118-IE126.~~ ~~IE106~~—In addition, upon completion of the asset, a third party will inspect the asset and assign a rating based on metrics that are defined in the ~~contract binding arrangement~~. If the asset receives a specified rating, the entity will be entitled to an incentive bonus of CU150,000.

~~IE119-IE127.~~ ~~IE107~~—In determining the transaction price, the entity prepares a separate estimate for each element of variable consideration to which the entity will be entitled using the estimation methods described in paragraph ~~54~~<sup>53</sup> of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~:

- (a) ~~(a)~~—~~t~~The entity decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (ie CU2.5 million, plus or minus CU10,000 per day). This is because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.
- (b) ~~(b)~~—~~t~~The entity decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU150,000 or CU0) and it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.

~~IE120-IE128.~~ ~~IE108~~—~~T~~The entity considers the requirements in paragraphs ~~57~~<sup>56</sup>–~~59~~<sup>58</sup> of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ on constraining estimates of variable consideration to determine whether the entity should include some or all of its estimate of variable consideration in the transaction price.

**Constraining ~~E~~estimates of ~~variable~~ Variable consideration~~Consideration~~**

*Illustrating the Consequences of Applying Paragraphs ~~56~~–~~59~~–AG63–AG70 and 85–87 of [draft] IPSAS [X] (ED XX).*

IE129. The following examples illustrate the requirements for constraining estimates of variable consideration, refund liabilities, sales with a right of return and allocating variable consideration to performance obligations. The examples are not based on actual transactions.

*Example 22—Right of ~~r~~Return*

~~IE121-IE130.~~ An entity enters into 100 ~~contracts binding arrangements~~ with ~~customers~~<sup>purchasers</sup>. Each ~~binding arrangement~~<sup>contract</sup> includes the sale of one product for CU100 (100 total products × CU100 = CU10,000 total consideration). Cash is received when control of a product transfers. The entity's customary ~~business~~ practice is to allow a ~~purchaser~~<sup>customer</sup> to return any unused product within 30 days and receive a full refund. The entity's cost of each product is CU60.

~~IE122-IE131.~~ ~~IE111~~—The entity applies the requirements in ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ to the portfolio of 100 ~~contracts binding arrangements~~ because it reasonably expects that, in accordance with paragraph ~~54~~, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual ~~contracts binding arrangements~~ within the portfolio.

~~IE123-IE132.~~ ~~IE112~~—Because the ~~contract binding arrangement~~ allows a ~~purchaser~~<sup>customer</sup> to return the products, the consideration received from the ~~purchaser~~<sup>customer</sup> is variable. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph ~~54~~(a)<sup>53</sup>(a) of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~) because it is the method that the entity expects to better predict the amount of consideration to which it will be

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entitled. Using the expected value method, the entity estimates that 97\_-products will not be returned.

~~IE124-IE133.~~ ~~IE113-~~ The entity also considers the requirements in paragraphs ~~57\_56-5958~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~ on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of CU9,700 (CU100 × 97\_-products not expected to be returned) can be included in the transaction price. The entity considers the factors in paragraph ~~5857~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~ and determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and ~~purchaser customer~~-class. In addition, the uncertainty will be resolved within a short time frame (ie the 30-day return period). Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue ~~recognised~~~~recognized~~ (ie CU9,700) will not occur as the uncertainty is resolved (ie over the return period).

~~IE125-IE134.~~ ~~IE114-~~ The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a ~~profit~~~~surplus~~.

~~IE126-IE135.~~ ~~IE115-~~ Upon transfer of control of the 100\_-products, the entity does not ~~recognise~~~~recognize~~ revenue for the three\_-products that it expects to be returned. Consequently, in accordance with paragraphs ~~5655~~ and AG64~~B21~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~, the entity ~~recognises~~~~recognizes~~ the following:

- (a) ~~(a)~~—~~r~~Revenue of CU9,700 (CU100 × 97\_-products not expected to be returned);
- (b) ~~(b)~~—~~a~~A refund liability of CU300 (CU100 refund × 3\_-products expected to be returned); and
- (c) ~~(c)~~—~~a~~An asset of CU180 (CU60 × 3 products for its right to recover products from ~~customers~~-~~purchasers~~ on settling the refund liability).

*Example 23—Price ~~c~~Concessions*

~~IE127-IE136.~~ An entity enters into a ~~contract-binding arrangement~~ with a ~~purchaser~~~~customer~~, a distributor, on ~~4-~~December ~~1\_-~~20X7. ~~At the inception of the binding arrangement,~~ ~~T~~he entity transfers 1,000 products ~~at contract inception~~ for a price stated in the ~~binding arrangement~~~~contract~~ of CU100\_-per\_-product (total consideration is CU100,000). Payment from the ~~purchaser customer~~ is due when the ~~purchaser customer~~-sells the products to the end ~~customers~~~~purchasers~~. The entity's ~~purchaser customer~~ generally sells the products within 90\_-days of obtaining them. Control of the products transfers to the ~~purchaser customer~~ on ~~4-~~December-~~1\_-~~20X7.

~~IE128-IE137.~~ ~~IE117-~~ On the basis of its past practices and to maintain its relationship with the ~~purchaser customer~~, the entity anticipates granting a price concession to its ~~purchaser customer~~ because this will enable the ~~purchaser customer~~ to discount the product and thereby move the product through the distribution chain. Consequently, the consideration in the ~~binding arrangement~~~~contract~~ is variable.

*Case A—Estimate of ~~V~~variable ~~consideration-Consideration~~ is not ~~constrained~~~~Constrained~~*

~~IE129-IE138.~~ ~~IE118-~~ The entity has significant experience selling this and similar products. The observable data indicate that historically the entity grants a price concession of approximately 20\_-per\_-cent of the sales price for these products. Current market information suggests that a 20\_-per\_-cent reduction in price will be sufficient to move the products through the distribution chain. The entity has not granted a price concession significantly greater than 20\_-per\_-cent in many years.

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~~IE130-IE139.~~ ~~IE119~~—To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph ~~54(a)~~~~53(a)~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates the transaction price to be CU80,000 (CU80 × 1,000 products).

~~IE131-IE140.~~ ~~IE120~~—The entity also considers the requirements in paragraphs ~~5756-5958~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of CU80,000 can be included in the transaction price. The entity considers the factors in paragraph ~~5857~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ and determines that it has significant previous experience with this product and current market information that supports its estimate. In addition, despite some uncertainty resulting from factors outside its influence, based on its current market estimates, the entity expects the price to be resolved within a short time frame. Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue ~~recognised~~~~recognized~~ (ie CU80,000) will not occur when the uncertainty is resolved (ie when the total amount of price concessions is determined). Consequently, the entity ~~recognises~~~~recognizes~~ CU80,000 as revenue when the products are transferred on ~~4~~~~1~~-December ~~1~~~~20~~X7.

Case B—Estimate of ~~variable consideration~~ *Consideration* is ~~e~~*Constrained*

~~IE132-IE141.~~ ~~IE121~~—The entity has experience selling similar products. However, the entity's products have a high risk of obsolescence and the entity is experiencing high volatility in the pricing of its products. The observable data indicate that historically the entity grants a broad range of price concessions ranging from ~~20-60~~~~per~~~~cent~~ of the sales price for similar products. Current market information also suggests that a ~~15-50~~~~per~~~~cent~~ reduction in price may be necessary to move the products through the distribution chain.

~~IE133-IE142.~~ ~~IE122~~—To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph ~~54(a)~~~~53(a)~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates that a discount of ~~40~~~~per~~~~cent~~ will be provided and, therefore, the estimate of the variable consideration is CU60,000 (CU60 × 1,000 products).

~~IE134-IE143.~~ ~~IE123~~—The entity also considers the requirements in paragraphs ~~5756-5958~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ on constraining estimates of variable consideration to determine whether some or all of the estimated amount of variable consideration of CU60,000 can be included in the transaction price. The entity considers the factors in paragraph ~~5857~~ of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ and observes that the amount of consideration is highly susceptible to factors outside the entity's influence (ie risk of obsolescence) and it is likely that the entity may be required to provide a broad range of price concessions to move the products through the distribution chain. Consequently, the entity cannot include its estimate of CU60,000 (ie a discount of ~~40~~~~per~~~~cent~~) in the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue ~~recognised~~~~recognized~~ will not occur. Although the entity's historical price concessions have ranged from ~~20-60~~~~per~~~~cent~~, market information currently suggests that a price concession of ~~15-50~~~~per~~~~cent~~ will be necessary. The entity's actual results have been consistent with then-current market information in previous, similar transactions. Consequently, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue ~~recognised~~~~recognized~~ will not occur if the entity includes CU50,000

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in the transaction price (CU100 sales price and a 50-per-cent price concession) and therefore, ~~recognises~~recognizes revenue at that amount. Therefore, the entity ~~recognises~~recognizes revenue of CU50,000 when the products are transferred and reassesses the estimates of the transaction price at each reporting date until the uncertainty is resolved in accordance with paragraph ~~60~~59 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~.

*Example 24—Volume ~~Discount~~ ~~Incentive~~Incentive*

~~IE135-IE144.~~ IE144. An entity enters into a ~~binding arrangement~~contract with a ~~customer-purchaser~~ on 4 January ~~1-~~ 20X8 to sell Product ~~A~~ for CU100-per-unit. If the ~~purchaser~~ customer purchases more than 1,000-units of Product ~~A~~ in a calendar year, the ~~binding arrangement~~contract specifies that the price per unit is retrospectively reduced to CU90-per-unit. Consequently, the consideration in the ~~binding arrangement~~contract is variable.

~~IE136-IE145.~~ IE145. ~~IE125—~~For the first quarter ended ~~31-~~ March ~~31-~~ 20X8, the entity sells 75-units of Product ~~A~~ to the ~~purchaser~~customer. The entity estimates that the ~~purchaser~~customer's purchases will not exceed the 1,000-unit threshold required for the volume discount in the calendar year.

~~IE137-IE146.~~ IE146. ~~IE126—~~The entity considers the requirements in paragraphs ~~57-56-59~~58 of ~~binding arrangement~~FRS-15 on constraining estimates of variable consideration, including the factors in paragraph ~~58~~57 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~. The entity determines that it has significant experience with this product and with the purchasing pattern of the entity. Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue ~~recognised~~recognized (ie CU100-per-unit) will not occur when the uncertainty is resolved (ie when the total amount of purchases is known). Consequently, the entity ~~recognises~~recognizes revenue of CU7,500 (75 units × CU100 per unit) for the quarter ended ~~31-~~ March ~~31-~~ 20X8.

~~IE138-IE147.~~ IE147. ~~IE127—~~In May, 20X8, the entity's ~~purchaser~~customer acquires another company and in the second quarter ended ~~30-~~ June ~~30-~~ 20X8 the entity sells an additional 500 units of Product ~~A~~ to the ~~purchaser~~customer. In the light of the new fact, the entity estimates that the ~~purchaser~~customer's purchases will exceed the 1,000-unit threshold for the calendar year and therefore it will be required to retrospectively reduce the price per unit to CU90.

~~IE139-IE148.~~ IE148. ~~IE128—~~Consequently, the entity ~~recognises~~recognizes revenue of CU44,250 for the quarter ended ~~30-~~ June ~~30-~~ 20X8. That amount is calculated from CU45,000 for the sale of 500-units (500 units × CU90 per unit) less the change in transaction price of CU750 (75-units × CU10 price reduction) for the reduction of revenue relating to units sold for the quarter ended ~~31-~~ March ~~31-~~ 20X8 (see paragraphs ~~88~~87 and ~~89~~88 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~).

*Example 25—Management ~~Fees~~ ~~Subject~~Subject to the ~~constraint~~Constraint*

~~IE140-IE149.~~ IE149. On 4 January ~~1-~~ 20X8, an entity enters into a ~~binding arrangement~~contract with a client to provide asset management services for five-years. The entity receives a two-per-cent quarterly management fee based on the client's assets under management at the end of each quarter. In addition, the entity receives a performance-based incentive fee of 20-per-cent of the fund's return in excess of the return of an observable market index over the five-year period. Consequently, both the management fee and the performance fee in the ~~binding arrangement~~contract are variable consideration.

~~IE141-IE150.~~ IE150. ~~IE130—~~The entity accounts for the services as a single performance obligation in accordance with paragraph ~~23(b)~~22(b) of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~, because it is

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providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the ~~purchase~~customer over time and use the same method to measure progress—that is, a time-based measure of progress).

~~IE142.~~~~IE151.~~ ~~IE131~~—At the inception of the binding arrangement~~contract inception~~, the entity considers the requirements in paragraphs ~~5150~~–~~5554~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ on estimating variable consideration and the requirements in paragraphs ~~5756~~–~~5958~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~ on constraining estimates of variable consideration, including the factors in paragraph ~~5857~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. The entity observes that the promised consideration is dependent on the market and thus is highly susceptible to factors outside the entity's influence. In addition, the incentive fee has a large number and a broad range of possible consideration amounts. The entity also observes that although it has experience with similar ~~contracts~~binding arrangements, that experience is of little predictive value in determining the future performance of the market. Therefore, at the inception of the ~~contract~~ binding arrangement~~inception~~, the entity cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue ~~recognised~~recognized would not occur if the entity included its estimate of the management fee or the incentive fee in the transaction price.

~~IE143.~~~~IE152.~~ ~~IE132~~—At each reporting date, the entity updates its estimate of the transaction price. Consequently, at the end of each quarter, the entity concludes that it can include in the transaction price the actual amount of the quarterly management fee because the uncertainty is resolved. However, the entity concludes that it cannot include its estimate of the incentive fee in the transaction price at those dates. This is because there has not been a change in its assessment from ~~contract inception of the binding arrangement~~~~inception~~—the variability of the fee based on the market index indicates that the entity cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue ~~recognised~~recognized would not occur if the entity included its estimate of the incentive fee in the transaction price. At ~~31~~March ~~31~~, 20X8, the client's assets under management are CU100 million. Therefore, the resulting quarterly management fee and the transaction price is CU2 million.

~~IE144.~~~~IE153.~~ ~~IE133~~—At the end of each quarter, the entity allocates the quarterly management fee to the distinct services provided during the quarter in accordance with paragraphs ~~85(b)~~~~84(b)~~ and ~~8685~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. This is because the fee relates specifically to the entity's efforts to transfer the services for that quarter, which are distinct from the services provided in other quarters, and the resulting allocation will be consistent with the allocation objective in paragraph ~~7473~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. Consequently, the entity ~~recognises~~recognizes CU2 million as revenue for the quarter ended ~~31~~March ~~31~~, 20X8.

**The ~~E~~xistence of a significant financing component in the contractBinding Arrangement**

Illustrating the Consequences of Applying Paragraphs 57–59, 61–66 and AG63–AG70 of [draft] IPSAS [X] (ED XX).

IE154. The following examples illustrate the requirements on the existence of a significant financing component in the binding arrangement, constraining estimates of variable consideration and sales with a right of return. The examples are not based on actual transactions.

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*Example 26—Significant ~~Financing component~~ Component and ~~right~~ Right of return Return*

~~IE144~~~~IE155~~. An entity sells a product to a ~~customer~~ purchaser for CU121 that is payable 24 months after delivery. The ~~purchaser~~ customer obtains control of the product at ~~the inception of the contract~~ binding arrangement inception. The ~~binding arrangement~~ contract permits the ~~purchaser~~ customer to return the product within 90 days. The product is new and the entity has no relevant historical evidence of product returns or other available market evidence.

~~IE146~~~~IE156~~. ~~IE136~~—The cash selling price of the product is CU100, which represents the amount that the ~~purchaser~~ customer would pay upon delivery for the same product sold under otherwise identical terms and conditions as at ~~the inception of the binding arrangement~~ contract inception. The entity's cost of the product is CU80.

~~IE147~~~~IE157~~. ~~IE137~~—The entity does not ~~recognise~~ recognize revenue when control of the product transfers to the ~~customer~~ purchaser. This is because the existence of the right of return and the lack of relevant historical evidence means that the entity cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue ~~recognised~~ recognized will not occur in accordance with paragraphs ~~57, 56–59~~ 58 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~. Consequently, revenue is ~~recognised~~ recognized after three months when the right of return lapses.

~~IE148~~~~IE158~~. ~~IE138~~—The ~~binding arrangement~~ contract includes a significant financing component, in accordance with paragraphs ~~61, 60–63~~ 62 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~. This is evident from the difference between the amount of promised consideration of CU121 and the cash selling price of CU100 at the date that the goods are transferred to the ~~customer~~ purchaser.

~~IE149~~~~IE159~~. ~~IE139~~—The ~~contract~~ binding arrangement includes an implicit interest rate of 10 per cent (ie the interest rate that over 24 months discounts the promised consideration of CU121 to the cash selling price of CU100). The entity evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its ~~customer~~ purchaser at ~~the inception of the binding arrangement~~ contract inception. The following journal entries illustrate how the entity accounts for this ~~binding arrangement~~ contract in accordance with paragraphs ~~AG63, B20–AG70~~ B27 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~.

- (a) ~~(a)~~—When the product is transferred to the ~~customer~~ purchaser, in accordance with paragraph ~~AG64~~ B24 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~:

Asset for right to recover product to be returned	CU80 <sup>11(a)</sup>
Inventory	CU80

<sup>12</sup>

- (b) During the three-month right of return period, no interest is ~~recognised~~ recognized in accordance with paragraph ~~66~~ 65 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~ because no ~~contract~~ binding arrangement asset or receivable has been ~~recognised~~ recognized.
- (c) ~~(c)~~—When the right of return lapses (the product is not returned):

<sup>11</sup> This example does not consider expected costs to recover the asset.

<sup>12(a)</sup> This example does not consider expected costs to recover the asset.

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Receivable	CU100 <sup>13</sup>
Revenue	CU100
Cost of sales	CU80
Asset for product to be returned	CU80

~~IE150.~~IE160. Until the entity receives the cash payment from the ~~customer~~purchaser, interest revenue would be ~~recognised~~recognized in accordance with ~~IFRS-9~~IPSAS 41. In determining the effective interest rate in accordance with ~~IFRS-9~~IPSAS 41, the entity would consider the remaining ~~contractual terms of the binding arrangement~~term.

*Example 27—Withheld ~~p~~Payments on a ~~long~~Long-term ~~Term contract~~Binding Arrangement*

~~IE151.~~IE161. ~~IE141~~—An entity enters into a ~~binding arrangement~~contract for the construction of a building that includes scheduled milestone payments for the performance by the entity throughout the ~~binding arrangement~~contract term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the entity's expected performance. The ~~binding arrangement~~contract provides that a specified percentage of each milestone payment is to be withheld (ie retained) by the ~~customer~~purchaser throughout the arrangement and paid to the entity only when the building is complete.

~~IE152.~~IE162. ~~IE142~~—The entity concludes that the ~~binding arrangement~~contract does not include a significant financing component. The milestone payments coincide with the entity's performance and the ~~binding arrangement~~contract requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph ~~63(c)~~62(c) of ~~[draft] IPSAS [X] (ED XX)~~IFRS 15. The withholding of a specified percentage of each milestone payment is intended to protect the ~~customer~~purchaser from the contractor failing to adequately complete its obligations under the ~~binding arrangement~~contract.

*Example 28—Determining the ~~d~~Discount ~~rate~~Rate*

~~IE153.~~IE163. An entity enters into a ~~binding arrangement~~contract with a ~~purchaser~~customer to sell equipment. Control of the equipment transfers to the ~~purchaser~~customer when the ~~binding arrangement~~contract is signed. The price stated in the ~~binding arrangement~~contract is CU1 million plus a five-per-cent ~~contractual~~ rate of interest in the binding arrangement, payable in 60 monthly instalments of CU18,871.

*Case A—~~Contractual~~ Discount Rate in the Binding Arrangement ~~discount rate reflects~~ Reflects the rate Rate in a separate ~~Separate financing~~ Financing transaction Transaction*

~~IE154.~~IE164. ~~IE144~~—In evaluating the discount rate in the ~~binding arrangement~~contract that contains a significant financing component, the entity observes that the five-per-cent ~~rate of interest in the binding arrangement~~contractual rate of interest reflects the rate that would be used in a separate financing transaction between the entity and its ~~customer~~purchaser at the inception of the

13 The receivable recognized would be measured in accordance with IPSAS 41. This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.



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binding arrangement contract inception (ie the contractual rate of interest of five \_per\_ cent in the binding arrangement reflects the credit characteristics of the customerpurchaser).

~~IE155-IE165.~~ ~~IE145~~—The market terms of the financing mean that the cash selling price of the equipment is CU1\_ million. This amount is ~~recognised~~recognized as revenue and as a loan receivable when control of the equipment transfers to the customerpurchaser. The entity accounts for the receivable in accordance with IFRS-9IPSAS 41.

Case B—~~Contractual Discount Rate in the Binding Arrangement discount rate does not reflect~~Reflect the rate Rate in a separate Separate financing Financing transaction Transaction

~~IE156-IE166.~~ ~~IE146~~—In evaluating the discount rate in the contract-binding arrangement that contains a significant financing component, the entity observes that the five \_per\_ cent contractual rate of interest in the binding arrangement is significantly lower than the 12 \_per\_ cent interest rate that would be used in a separate financing transaction between the entity and its customer-purchaser at the inception of the binding arrangementcontract inception (ie the contractual rate of interest in the binding arrangement of five \_per\_ cent does not reflect the credit characteristics of the customerpurchaser). This suggests that the cash selling price is less than CU1\_ million.

~~IE157-IE167.~~ ~~IE147~~—In accordance with paragraph\_6564 of [draft] IPSAS [X] (ED XX)~~IFRS-15~~, the entity determines the transaction price by adjusting the promised amount of consideration to reflect the contractual payments in the binding arrangement payments using the 12 \_per\_ cent interest rate that reflects the credit characteristics of the customerpurchaser. Consequently, the entity determines that the transaction price is CU848,357 (60 monthly payments of CU18,871 discounted at 12 \_per\_ cent). The entity ~~recognises~~recognizes revenue and a loan receivable for that amount. The entity accounts for the loan receivable in accordance with IFRS-9IPSAS 41.

Example 29—Advance pPayment and ~~assessment~~ Assessment of ~~discount~~ Discount rateRate

~~IE158-IE168.~~ ~~IE148~~—An entity enters into a binding arrangementcontract with a customer-purchaser to sell an asset. Control of the asset will transfer to the purchaser customer in two years (ie the performance obligation will be satisfied at a point in time). The binding arrangementcontract includes two alternative payment options: payment of CU5,000 in two years when the customer-purchaser obtains control of the asset or payment of CU4,000 when the binding arrangementcontract is signed. The customer-purchaser elects to pay CU4,000 when the binding arrangement contract is signed.

~~IE159-IE169.~~ ~~IE149~~—The entity concludes that the binding arrangementcontract contains a significant financing component because of the length of time between when the customer-purchaser pays for the asset and when the entity transfers the asset to the purchasercustomer, as well as the prevailing interest rates in the market.

~~IE160-IE170.~~ ~~IE150~~—The interest rate implicit in the transaction is 11.8 \_per\_ cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, in accordance with paragraph\_6564 of [draft] IPSAS [X] (ED XX)~~IFRS-15~~, the rate that should be used in adjusting the promised consideration is six \_per\_ cent, which is the entity's incremental borrowing rate.



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~~IE161-IE171.~~ ~~IE151~~—The following journal entries illustrate how the entity would account for the significant financing component:

- (a) ~~(a)~~—~~recognise~~Recognize a ~~contract-binding arrangement~~ liability for the CU4,000 payment received at ~~contract inception of the binding arrangement~~inception:

Cash	CU4,000
<u>Contract-Binding arrangement</u> liability	CU4,000

- (b) ~~(b)~~—~~d~~During the two years from ~~contract inception of the binding arrangement~~inception until the transfer of the asset, the entity adjusts the promised amount of consideration (in accordance with paragraph ~~66~~<sup>65</sup> of ~~[draft] IPSAS [X] (ED XX)]IFRS-15~~) and accretes the ~~contract-binding arrangement~~ liability by ~~recognising~~recognizing interest on CU4,000 at six ~~per~~ cent for two years:

Interest expense	CU494 <sup>14(a)</sup>
<u>Binding arrangement</u> <del>Contract</del> liability	CU494

<sup>15</sup>

- (c) Recognize revenue for the transfer of the asset:

<u>Binding arrangement</u> <del>Contract</del> liability	CU4,494
Revenue	CU4,494

*Example 30—Advance ~~p~~Payment*

~~IE162-IE172.~~ ~~IE172.~~ An entity, a technology product manufacturer, enters into a ~~contract-binding arrangement~~ with a ~~purchaser customer~~ to provide global telephone technology support and repair coverage for three ~~years~~ along with its technology product. The ~~purchaser customer~~ purchases this support service at the time of buying the product. Consideration for the service is an additional CU300. ~~Customers-Purchasers~~ electing to buy this service must pay for it upfront (ie a monthly payment option is not available).

~~IE163-IE173.~~ ~~IE153~~ To determine whether there is a significant financing component in the ~~binding arrangement~~contract, the entity considers the nature of the service being offered and the purpose of the payment terms. The entity charges a single upfront amount, not with the primary purpose of obtaining financing from the ~~purchaser customer~~ but, instead, to ~~maximisemaximize~~ profitabilitysurplus, taking into consideration the risks associated with providing the service. Specifically, if ~~customers-purchasers~~ could pay monthly, they would be less likely to renew and the population of ~~customers-purchasers~~ that continue to use the support service in the later years may

<sup>14</sup> CU494 = CU4,000 binding arrangement liability × (6 per cent interest per year for two years).

<sup>15(a)</sup> ~~CU494 = CU4,000 contract liability × (6 per cent interest per year for two years).~~

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become smaller and less diverse over time (ie ~~customers-purchasers~~ that choose to renew historically are those that make greater use of the service, thereby increasing the entity's costs). In addition, ~~customers-purchasers~~ tend to use services more if they pay monthly rather than making an upfront payment. Finally, the entity would incur higher administration costs such as the costs related to administering renewals and collection of monthly payments.

~~IE164-IE174.~~ ~~IE154~~—In assessing the requirements in paragraph ~~63(c)~~~~62(e)~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the entity. The entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the entity concludes that there is not a significant financing component.

**Non-Cash ~~consideration~~Consideration**

*Illustrating the Consequences of Applying Paragraphs 23, 57 - 59 and 67 - 70 of [draft] IPSAS [X] (ED XX).*

~~IE175.~~ The following example illustrates the requirements on non-cash consideration, identifying performance obligations and constraining estimates of variable consideration. The example is not based on actual transactions.

*Example 31—Entitlement to ~~n~~Non-cash ~~Cash~~ considerationConsideration*

~~IE165-IE176.~~ An entity enters into a ~~binding arrangement~~~~contract~~ with a ~~customer-purchaser~~ to provide a weekly service for one year. The ~~binding arrangement~~~~contract~~ is signed on 4 January 1, 20X1 and work begins immediately. The entity concludes that the service is a single performance obligation in accordance with paragraph ~~23(b)~~~~22(b)~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~. This is because the entity is providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the ~~customer-purchaser~~ over time and use the same method to measure progress—that is, a time-based measure of progress).

~~IE166-IE177.~~ ~~IE157~~—In exchange for the service, the ~~customer-purchaser~~ promises 100 shares of its common stock per week of service (a total of 5,200 shares for the ~~binding arrangement~~~~contract~~). The terms in the ~~binding arrangement~~~~contract~~ require that the shares must be paid upon the successful completion of each week of service.

~~IE167-IE178.~~ ~~IE158~~—The entity measures its progress towards complete satisfaction of the performance obligation as each week of service is complete. To determine the transaction price (and the amount of revenue to be ~~recognised~~~~recognized~~), the entity measures the fair value of 100 shares that are received upon completion of each weekly service. The entity does not reflect any subsequent changes in the fair value of the shares received (or receivable) in revenue.

**Consideration ~~P~~payable to a ~~customer~~Purchaser**

*Illustrating the Consequences of Applying Paragraphs 71- 73 of [draft] IPSAS [X] (ED XX).*

~~IE179.~~ The following example illustrates the requirements on consideration payable to a purchaser. The example is not based on actual transactions.

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*Example 32—Consideration payable to a customer purchaser*

~~IE168-IE180.~~ An entity that manufactures consumer goods enters into a one-year ~~binding arrangement~~ contract to sell goods to a ~~customer purchaser~~ that is a large global chain of retail stores. The ~~customer purchaser~~ commits to buy at least CU15 million of products during the year. The ~~binding arrangement~~ contract also requires the entity to make a non-refundable payment of CU1.5 million to the ~~customer purchaser~~ at the inception of the ~~binding arrangement~~ contract. The CU1.5 million payment will compensate the ~~customer purchaser~~ for the changes it needs to make to its shelving to accommodate the entity's products.

~~IE169-IE181.~~ ~~IE161~~—The entity considers the requirements in paragraphs ~~7170~~–~~7372~~ of ~~[draft] IPSAS [X] (ED XX) IFRS 15~~ and concludes that the payment to the ~~customer purchaser~~ is not in exchange for a distinct good or service that transfers to the entity. This is because the entity does not obtain control of any rights to the ~~customer's purchaser's~~ shelves. Consequently, the entity determines that, in accordance with paragraph ~~7170~~ of ~~[draft] IPSAS [X] (ED XX) IFRS 15~~, the CU1.5 million payment is a reduction of the transaction price.

~~IE170-IE182.~~ ~~IE162~~—The entity applies the requirements in paragraph ~~7372~~ of ~~[draft] IPSAS [X] (ED XX) IFRS 15~~ and concludes that the consideration payable is accounted for as a reduction in the transaction price when the entity ~~recognises~~ recognizes revenue for the transfer of the goods. Consequently, as the entity transfers goods to the ~~customer purchaser~~, the entity reduces the transaction price for each good by 10 per cent (CU1.5 million ÷ CU15 million). Therefore, in the first month in which the entity transfers goods to the ~~customer purchaser~~, the entity ~~recognises~~ recognizes revenue of CU1.8 million (CU2.0 million invoiced amount less CU0.2 million of consideration payable to the ~~customer purchaser~~).

**Allocating the transaction price to performance obligations**

~~IE183.~~ *Illustrating the Consequences of Applying Paragraphs 54, 74–87 and AG110 of [draft] IPSAS [X] (ED XX).*

~~IE184.~~ The following examples illustrate the requirements on allocating the transaction price to performance obligations, variable consideration and consideration in the form of sales-based or usage-based royalties on licenses of intellectual property. The examples are not based on actual transactions.

*Example 33—Allocation methodology*

~~IE171-IE185.~~ An entity enters into a ~~binding arrangement~~ contract with a ~~customer purchaser~~ to sell Products A, B and C in exchange for CU100. The entity will satisfy the performance obligations for each of the products at different points in time. The entity regularly sells Product A separately and therefore the stand-alone selling price is directly observable. The stand-alone selling prices of Products B and C are not directly observable.

~~IE172-IE186.~~ ~~IE165~~—Because the stand-alone selling prices for Products B and C are not directly observable, the entity must estimate them. To estimate the stand-alone selling prices, the entity uses the adjusted market assessment approach for Product B and the expected cost plus a margin approach for Product C. In making those estimates, the entity ~~maximises~~ maximizes the use of observable inputs (in accordance with paragraph ~~7978~~ of ~~[draft] IPSAS [X] (ED XX) IFRS 15~~). The entity estimates the stand-alone selling prices as follows:

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Product	Stand-alone selling price	Method
<b>CU</b>		
Product— A	50	Directly observable (see paragraph— <del>78</del> <sup>77</sup> of <del>IFRS 15</del> <sup>[draft] IPSAS [X] (ED XX)</sup> )
Product— B	25	Adjusted market assessment approach (see paragraph— <del>80(a)</del> <sup>79(a)</sup> of <sup>[draft] IPSAS [X] (ED XX)</sup> <del>IFRS 15</del> )
Product— C	75	Expected cost <del>plus a margin</del> approach (see paragraph— <del>80(b)</del> <sup>79(b)</sup> of <sup>[draft] IPSAS [X] (ED XX)</sup> <del>IFRS 15</del> )
Total	150	

~~IE173.~~<sup>IE187.</sup> The ~~customer-purchaser~~ receives a discount for purchasing the bundle of goods because the sum of the stand-alone selling prices (CU150) exceeds the promised consideration (CU100). The entity considers whether it has observable evidence about the performance obligation to which the entire discount belongs (in accordance with paragraph—~~83~~<sup>82</sup> of <sup>[draft] IPSAS [X] (ED XX)</sup>~~IFRS 15~~) and concludes that it does not. Consequently, in accordance with paragraphs—~~77~~<sup>76</sup> and—~~82~~<sup>81</sup> of <sup>[draft] IPSAS [X] (ED XX)</sup>~~IFRS 15~~, the discount is allocated proportionately across Products—~~A~~,—~~B~~ and—~~C~~. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated <del>transaction</del> — <u>Transaction price</u> <sup>Price</sup>
<b>CU</b>	
Product A	33 (CU50 ÷ CU150 × CU100)
Product B	17 (CU25 ÷ CU150 × CU100)
Product C	50 (CU75 ÷ CU150 × CU100)
Total	100

*Example 34—Allocating a Discount*

~~IE174.~~<sup>IE188.</sup> An entity regularly sells Products—~~A~~,—~~B~~ and—~~C~~ individually, thereby establishing the following stand-alone selling prices:

Product	Stand-alone selling price
<b>CU</b>	
Product— A	40
Product— B	55

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Product	Stand-alone selling price
<b>CU</b>	
Product— C	45
Total	140

~~IE175-IE189.~~ In addition, the entity regularly sells Products—B and—C together for CU60.

Case A—Allocating a ~~Discount~~ to ~~one—One~~ or ~~more—More~~ ~~performance—Performance~~ ~~obligationsObligations~~

~~IE176-IE190.~~ ~~IE169~~—The entity enters into a ~~contract-binding arrangement~~ with a ~~customer-purchaser~~ to sell Products—A,—B and—C in exchange for CU100. The entity will satisfy the performance obligations for each of the products at different points in time.

~~IE177-IE191.~~ ~~IE170~~—The ~~contract-binding arrangement~~ includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method (in accordance with paragraph—8284 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~). However, because the entity regularly sells Products—B and—C together for CU60 and Product—A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Products—B and—C in accordance with paragraph—8382 of ~~[draft] IPSAS [X] (ED XX)]FRS-15~~.

~~IE178-IE192.~~ ~~IE171~~—If the entity transfers control of Products—B and—C at the same point in time, then the entity could, as a practical matter, account for the transfer of those products as a single performance obligation. That is, the entity could allocate CU60 of the transaction price to the single performance obligation and ~~recogniserecognize~~ revenue of CU60 when Products—B and—C simultaneously transfer to the ~~customerpurchaser~~.

~~IE179-IE193.~~ ~~IE172~~—If the ~~contract-binding arrangement~~ requires the entity to transfer control of Products—B and—C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Product—B (stand-alone selling price of CU55) and Product—C (stand-alone selling price of CU45) as follows:

Product	Allocated transaction price
<b>CU</b>	
Product— B	33 (CU55 ÷ CU100 total stand-alone selling price × CU60)
Product— C	27 (CU45 ÷ CU100 total stand-alone selling price × CU60)
Total	60

Case B—Residual ~~A~~approach is ~~a~~appropriate

~~IE180-IE194.~~ ~~IE173~~—The entity enters into a ~~contract-binding arrangement~~ with a ~~customer-purchaser~~ to sell Products—A,—B and—C as described in Case—A. The ~~binding arrangementcontract~~ also includes a promise to transfer Product—D. Total consideration in the ~~binding arrangementcontract~~

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is CU130. The stand-alone selling price for Product\_D is highly variable (see paragraph\_80(c)79(e) of [draft] IPSAS [X] (ED XX)IFRS-15) because the entity sells Product\_D to different customers purchasers for a broad range of amounts (CU15–CU45). Consequently, the entity decides to estimate the stand-alone selling price of Product\_D using the residual approach.

IE181-IE195. IE174—Before estimating the stand-alone selling price of Product\_D using the residual approach, the entity determines whether any discount should be allocated to the other performance obligations in the binding arrangement contract in accordance with paragraphs\_8382 and\_8483 of [draft] IPSAS [X] (ED XX)IFRS-15.

IE182-IE196. IE175—As in Case\_A, because the entity regularly sells Products\_B and\_C together for CU60 and Product\_A for CU40, it has observable evidence that CU100 should be allocated to those three products and a CU40 discount should be allocated to the promises to transfer Products\_B and\_C in accordance with paragraph\_8382 of [draft] IPSAS [X] (ED XX)IFRS-15. Using the residual approach, the entity estimates the stand-alone selling price of Product\_D to be CU30 as follows:

Product	Stand-alone selling price	Method
<b>CU</b>		
Product_— A	40	Directly observable (see paragraph_—7877 of [draft] IPSAS [X] (ED XX)IFRS-15)
Products B and C	60	Directly observable with discount (see paragraph_8382 of [draft] IPSAS [X] (ED XX)IFRS-15)
Product_— D	30	Residual approach (see paragraph_—80(c)79(e) of [draft] IPSAS [X] (ED XX)IFRS-15)
Total	130	

IE183-IE197. The entity observes that the resulting CU30 allocated to Product\_D is within the range of its observable selling prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph\_7473 of [draft] IPSAS [X] (ED XX)IFRS-15 and the requirements in paragraph\_7978 of [draft] IPSAS [X] (ED XX)IFRS-15.

Case C—Residual Approach is inappropriateInappropriate

IE184-IE198. IE177—The same facts as in Case\_B apply to Case\_C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone selling price of CU5 for Product\_D (CU105 transaction price less CU100 allocated to Products\_A, \_B and \_C). The entity concludes that CU5 would not faithfully depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying its performance obligation to transfer Product\_D, because CU5 does not approximate the stand-alone selling price of Product\_D, which ranges from CU15–CU45. Consequently, the entity reviews its observable data, including sales and margin reports, to estimate the stand-alone selling price of Product\_D using another suitable method. The entity allocates the transaction price of CU105 to Products\_A, \_B, \_C and \_D using the relative stand-alone selling prices of those products in accordance with paragraphs\_7473\_—8180 of [draft] IPSAS [X] (ED XX)IFRS-15.

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*Example 35—Allocation of ~~Variable consideration~~ Consideration*

~~IE185-IE199.~~ IE199. An entity enters into a contract-binding arrangement with a customer-purchaser for two intellectual property licences/licenses (Licence/License-X and -Y), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licence/License-X and -Y are CU800 and CU1,000, respectively.

*Case A—Variable ~~consideration~~ Consideration allocated ~~Allocated~~ entirely Entirely to ~~a~~ One performance obligation*

~~IE186-IE200.~~ IE200. ~~IE179—~~ The price stated in the contract-binding arrangement for Licence/License-X is a fixed amount of CU800 and for Licence/License-Y the consideration is three-per-cent of the customer's-purchaser's future sales of products that use Licence/License-Y. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be CU1,000, in accordance with paragraph ~~5453~~ of [draft] IPSAS [X] (ED XX) IFRS-15.

~~IE187-IE201.~~ IE201. ~~IE180—~~ To allocate the transaction price, the entity considers the criteria in paragraph ~~8685~~ of [draft] IPSAS [X] (ED XX) IFRS-15 and concludes that the variable consideration (ie the sales-based royalties) should be allocated entirely to Licence/License-Y. The entity concludes that the criteria in paragraph ~~8685~~ of [draft] IPSAS [X] (ED XX) IFRS-15 are met for the following reasons:

- (a) ~~(a) —~~ t The variable payment relates specifically to an outcome from the performance obligation to transfer Licence/License-Y (ie the customer's-purchaser's subsequent sales of products that use Licence/License-Y).
- (b) ~~(b) —~~ a Allocating the expected royalty amounts of CU1,000 entirely to Licence/License-Y is consistent with the allocation objective in paragraph ~~7473~~ of [draft] IPSAS [X] (ED XX) IFRS-15. This is because the entity's estimate of the amount of sales-based royalties (CU1,000) approximates the stand-alone selling price of Licence/License-Y and the fixed amount of CU800 approximates the stand-alone selling price of Licence/License-X. The entity allocates CU800 to Licence/License-X in accordance with paragraph ~~8786~~ of [draft] IPSAS [X] (ED XX) IFRS-15. This is because, based on an assessment of the facts and circumstances relating to both licences/licenses, allocating to Licence/License-Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph ~~7473~~ of [draft] IPSAS [X] (ED XX) IFRS-15.

~~IE188-IE202.~~ IE202. ~~IE181—~~ The entity transfers Licence/License-Y at inception of the contract-binding arrangement and transfers Licence/License-X one month later. Upon the transfer of Licence/License-Y, the entity does not recogniserecognize revenue because the consideration allocated to Licence/License-Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph ~~AG110B63~~ of [draft] IPSAS [X] (ED XX) IFRS-15, the entity recognisesrecognizes revenue for the sales-based royalty when those subsequent sales occur.

~~IE189-IE203.~~ IE203. ~~IE182—~~ When Licence/License-X is transferred, the entity recognisesrecognizes as revenue the CU800 allocated to Licence/License-X.

*Case B—Variable ~~Consideration~~ Consideration allocated ~~Allocated~~ on the basis Basis of ~~stand~~ Stand-alone ~~alone~~ selling Selling prices*

~~IE190-IE204.~~ IE204. ~~IE183—~~ The price stated in the binding arrangementcontract for Licence/License-X is a fixed amount of CU300 and for Licence/License-Y the consideration is five-per-cent of the

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customer's purchaser's future sales of products that use LicenceLicense-Y. The entity's estimate of the sales-based royalties (ie the variable consideration) is CU1,500 in accordance with paragraph 5453 of [draft] IPSAS [X] (ED XX)IFRS-15.

IE191-IE205. IE184—To allocate the transaction price, the entity applies the criteria in paragraph 8685 of [draft] IPSAS [X] (ED XX)IFRS-15 to determine whether to allocate the variable consideration (ie the sales-based royalties) entirely to LicenceLicense-Y. In applying the criteria, the entity concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer LicenceLicense-Y (ie the customer's purchaser's subsequent sales of products that use LicenceLicense-Y), allocating the variable consideration entirely to LicenceLicense-Y would be inconsistent with the principle for allocating the transaction price. Allocating CU300 to LicenceLicense-X and CU1,500 to LicenceLicense-Y does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone selling prices of LicencesLicenses-X and -Y of CU800 and CU1,000, respectively. Consequently, the entity applies the general allocation requirements in paragraphs 7776–8180 of [draft] IPSAS [X] (ED XX)IFRS-15.

IE192-IE206. IE185—The entity allocates the transaction price of CU300 to LicencesLicenses-X and -Y on the basis of relative stand-alone selling prices of CU800 and CU1,000, respectively. The entity also allocates the consideration related to the sales-based royalty on a relative stand-alone selling price basis. However, in accordance with paragraph AG110B63 of [draft] IPSAS [X] (ED XX)IFRS-15, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise recognize revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

IE193-IE207. IE186—LicenceLicense-Y is transferred to the customer-purchaser at the inception of the contract-binding arrangement and LicenceLicense-X is transferred three months later. When LicenceLicense-Y is transferred, the entity recognisesrecognizes as revenue the CU167 ( $CU1,000 \div CU1,800 \times CU300$ ) allocated to LicenceLicense-Y. When LicenceLicense-X is transferred, the entity recognisesrecognizes as revenue the CU133 ( $CU800 \div CU1,800 \times CU300$ ) allocated to LicenceLicense-X.

IE194-IE208. IE187—In the first month, the royalty due from the customer's purchaser's first month of sales is CU200. Consequently, in accordance with paragraph AG110B63 of [draft] IPSAS [X] (ED XX)IFRS-15, the entity recognisesrecognizes as revenue the CU111 ( $CU1,000 \div CU1,800 \times CU200$ ) allocated to LicenceLicense-Y (which has been transferred to the customer-purchaser and is therefore a satisfied performance obligation). The entity recognisesrecognizes a contract-binding arrangement liability for the CU89 ( $CU800 \div CU1,800 \times CU200$ ) allocated to LicenceLicense-X. This is because although the subsequent sale by the entity's customer-purchaser has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

**Contract-Binding Arrangement costsCosts**

*Illustrating the Consequences of Applying Paragraphs 92 - 95, 96-99 and 100 - 105 of [draft] IPSAS [X] (ED XX).*

IE195-IE209. The following examples illustrate the requirements on incremental costs of obtaining a binding arrangement, costs to fulfil a binding arrangement and amortization and impairment of binding arrangement costs. The examples are not based on actual transactions.



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*Example 36—Incremental ~~e~~Costs of ~~obtaining~~ Obtaining a ~~contract~~Binding Arrangement*

~~IE196~~~~IE210~~. ~~IE189~~—An entity, a provider of consulting services, wins a competitive bid to provide consulting services to a new ~~customer~~~~purchaser~~. The entity incurred the following costs to obtain the ~~binding arrangement~~~~contract~~:

	CU
External legal fees for due diligence	15,000
Travel costs to deliver proposal	25,000
Commissions to sales employees	<u>10,000</u>
Total costs incurred	<u>50,000</u>

~~IE197~~~~IE211~~. ~~IE190~~—In accordance with paragraph ~~92~~~~94~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the entity ~~recognises~~~~recognizes~~ an asset for the CU10,000 incremental costs of obtaining the ~~binding arrangement~~~~contract~~ arising from the commissions to sales employees because the entity expects to recover those costs through future fees for the consulting services. The entity also pays discretionary annual bonuses to sales supervisors based on annual sales targets, overall profitability of the entity and individual performance evaluations. In accordance with paragraph ~~92~~~~94~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the entity does not ~~recognize~~ ~~recognise~~ an asset for the bonuses paid to sales supervisors because the bonuses are not incremental to obtaining a ~~contract~~~~binding arrangement~~. The amounts are discretionary and are based on other factors, including the ~~performance of the~~~~profitability of the~~ entity and the individuals' ~~performance~~. The bonuses are not directly attributable to identifiable ~~contracts~~~~binding arrangements~~.

~~IE198~~~~IE212~~. ~~IE191~~—The entity observes that the external legal fees and travel costs would have been incurred regardless of whether the ~~contract~~~~binding arrangement~~ was obtained. Therefore, in accordance with paragraph ~~94~~~~93~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, those costs are ~~recognized~~ ~~recognised~~ as expenses when incurred, unless they are within the scope of another Standard, in which case, the relevant provisions of that Standard apply.

*Example 37—Costs that ~~Give rise~~ Rise to an ~~asset~~Asset*

~~IE199~~~~IE213~~. ~~IE192~~—An entity enters into a ~~binding arrangement for a~~ service ~~contract~~ to manage a ~~customer's~~~~purchaser's~~ information technology data ~~centre~~~~center~~ for five years. The ~~binding arrangement~~~~contract~~ is renewable for subsequent one-year periods. The average ~~customer~~~~purchaser~~ term is seven years. The entity pays an employee a CU10,000 sales commission upon the ~~customer~~~~purchaser~~ signing the ~~binding arrangement~~~~contract~~. Before providing the services, the entity designs and builds a technology platform for the entity's internal use that interfaces with the ~~customer's~~~~purchaser's~~ systems. That platform is not transferred to the ~~customer~~~~purchaser~~, but will be used to deliver services to the ~~customer~~~~purchaser~~.

*Incremental ~~C~~osts of ~~obtaining~~ Obtaining a ~~contract~~Binding Arrangement*

~~IE200~~~~IE214~~. ~~IE193~~—In accordance with paragraph ~~92~~~~94~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, the entity ~~recognises~~~~recognizes~~ an asset for the CU10,000 incremental costs of obtaining the ~~contract~~~~binding arrangement~~ for the sales commission because the entity expects to recover those costs through future fees for the services to be provided. The entity ~~amortises~~~~amortizes~~ the asset over seven years in accordance with paragraph ~~100~~~~99~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 15~~, because

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the asset relates to the services transferred to the customer-purchaser during the contract-term of the binding arrangement of five years and the entity anticipates that the contract binding arrangement will be renewed for two subsequent one-year periods.

Costs to Fulfil a contractBinding Arrangement

IE201-IE215. IE194—The initial costs incurred to set up the technology platform are as follows:

CU	
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	<u>350,000</u>

IE202-IE216. IE195—The initial setup costs relate primarily to activities to fulfil the binding arrangement contract but do not transfer goods or services to the customer-purchaser. The entity accounts for the initial setup costs as follows:

- (a) (a)—hHardware costs—accounted for in accordance with IPSAS 46-17, Property, Plant and Equipment.
- (a) (b)—sSoftware costs—accounted for in accordance with IPSAS 381, Intangible Assets.
- (b) (c)—cCosts of the design, migration and testing of the data centre—assessed in accordance with paragraph 9695 of [draft] IPSAS [X] (ED XX)IFRS-15 to determine whether an asset can be recognisedrecognized for the costs to fulfil the contractbinding arrangement. Any resulting asset would be amortisedamortized on a systematic basis over the seven-year period (ie the five-year contract-term of the binding arrangement and two anticipated one-year renewal periods) that the entity expects to provide services related to the data centrecenter.

IE203-IE217. IE196—In addition to the initial costs to set up the technology platform, the entity also assigns two employees who are primarily responsible for providing the service to the customer-purchaser. Although the costs for these two employees are incurred as part of providing the service to the customer-purchaser, the entity concludes that the costs do not generate or enhance resources of the entity (see paragraph 96(b)95(b) of [draft] IPSAS [X] (ED XX)IFRS-15). Therefore, the costs do not meet the criteria in paragraph 9695 of [draft] IPSAS [X] (ED XX)IFRS-15 and cannot be recognisedrecognized as an asset using [draft] IPSAS [X] (ED XX)IFRS-15. In accordance with paragraph 9998, the entity recognisesrecognizes the payroll expense for these two employees when incurred.

## Presentation

Illustrating the Consequences of Applying Paragraphs 57-59, 61-66 and AG63-AG70 of [draft] IPSAS [X] (ED XX).

IE218. The following examples illustrate the requirements on presentation of binding arrangement balances. The examples are not based on actual transactions.

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Example 38— Binding Arrangement Contract Liability and Receivable

Case A—Cancellable contract Binding Arrangement

~~IE204-IE219.~~ ~~IE198~~—On ~~4~~ January ~~1~~, 20X9, an entity enters into a binding arrangement that is cancellable ~~contract~~ to transfer a product to a customer purchaser on ~~31~~ March ~~31~~, 20X9. The binding arrangement contract requires the customer purchaser to pay consideration of CU1,000 in advance on ~~31~~ January ~~31~~, 20X9. The customer pays the consideration on ~~4~~ March ~~1~~, 20X9. The entity transfers the product on ~~31~~ March ~~31~~, 20X9. The following journal entries illustrate how the entity accounts for the binding arrangement contract:

- (a) ~~(a)~~—The entity receives cash of CU1,000 on ~~4~~ March ~~1~~, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
<u>Contract Binding Arrangement Liability</u>		CU1,000

- (b) ~~(b)~~—The entity satisfies the performance obligation on ~~31~~ March ~~31~~, 20X9:

<u>Binding Arrangement Contract Liability</u>	CU1,000	
Revenue		CU1,000

Case B—Non-cancellable contract Binding Arrangement

~~IE205-IE220.~~ ~~IE199~~—The same facts as in Case A apply to Case B except that the binding arrangement contract is non-cancellable. The following journal entries illustrate how the entity accounts for the binding arrangement contract:

- (a) ~~(a)~~—The amount of consideration is due on ~~31~~ January ~~31~~, 20X9 (which is when the entity ~~recognises~~recognizes a receivable because it has an unconditional right to consideration):

Receivable	CU1,000	
<u>Binding Arrangement Liability Contract liability</u>		CU1,000

- (a) ~~(b)~~—The entity receives the cash on ~~4~~ March ~~1~~, 20X9:

Cash	CU1,000	
Receivable		CU1,000

- (b) ~~(b)~~—The entity satisfies the performance obligation on ~~31~~ March ~~31~~, 20X9:

<u>Binding Arrangement Liability Contract liability</u>	CU1,000	
Revenue		CU1,000

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~~IE206-IE221.~~ ~~IE200~~—If the entity issued the invoice before ~~31-January 31-~~20X9 (the due date of the consideration), the entity would not present the receivable and the ~~Binding Arrangement Liability~~~~contract liability~~ on a gross basis in the statement of financial position because the entity does not yet have a right to consideration that is unconditional.

*Example 39—~~Contract~~ Binding Arrangement ~~asset~~ Asset ~~recognised~~ Recognized for the ~~e~~Entity's ~~p~~Performance*

~~IE207-IE222.~~ ~~IE201~~—On ~~1-January 1-~~20X8, an entity enters into a ~~contract-binding arrangement~~ to transfer Products ~~-A and -B~~ to a ~~customer-purchaser~~ in exchange for CU1,000. The ~~binding arrangement~~~~contract~~ requires Product ~~-A~~ to be delivered first and states that payment for the delivery of Product ~~-A~~ is conditional on the delivery of Product ~~-B~~. In other words, the consideration of CU1,000 is due only after the entity has transferred both Products ~~-A and -B~~ to the ~~customer-purchaser~~. Consequently, the entity does not have a right to consideration that is unconditional (a receivable) until both Products ~~-A and -B~~ are transferred to the ~~customer-purchaser~~.

~~IE208-IE223.~~ ~~IE202~~—The entity identifies the promises to transfer Products ~~-A and -B~~ as performance obligations and allocates CU400 to the performance obligation to transfer Product ~~-A~~ and CU600 to the performance obligation to transfer Product ~~-B~~ on the basis of their relative stand-alone selling prices. The entity ~~recognises~~recognizes revenue for each respective performance obligation when control of the product transfers to the customer.

~~IE209-IE224.~~ ~~IE203~~—The entity satisfies the performance obligation to transfer Product ~~-A~~:

<del>Binding Arrangement Asset</del> <u>Contract asset</u>	CU400
Revenue	CU400

~~IE210-IE225.~~ ~~IE204~~—The entity satisfies the performance obligation to transfer Product ~~-B~~ and to ~~recognise~~recognize the unconditional right to consideration:

Receivable	CU1,000
<del>Binding Arrangement Asset</del> <u>Contract asset</u>	CU400
Revenue	CU600

*Example 40—Receivable ~~recognised~~ Recognized for the ~~e~~Entity's ~~p~~Performance*

~~IE211-IE226.~~ ~~IE205~~—An entity enters into a ~~binding arrangement~~~~contract~~ with a ~~customer-purchaser~~ on ~~1-January 1-~~20X9 to transfer products to the ~~customer-purchaser~~ for CU150 per ~~-product~~. If the ~~customer-purchaser~~ purchases more than 1 million products in a calendar year, the ~~contract~~ ~~binding arrangement~~ indicates that the price per unit is retrospectively reduced to CU125 per product.

~~IE212-IE227.~~ ~~IE206~~—Consideration is due when control of the products transfer to the ~~customer-purchaser~~. Therefore, the entity has an unconditional right to consideration (ie a receivable) for CU150 per product until the retrospective price reduction applies (ie after ~~1-~~million products are shipped).

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~~IE213-IE228.~~ ~~IE207~~—In determining the transaction price, the entity concludes at ~~contract the~~ inception ~~of the binding arrangement~~ that the ~~customer-purchaser~~ will meet the 1-million products threshold and therefore estimates that the transaction price is CU125 per product. Consequently, upon the first shipment to the ~~customer-purchaser~~ of 100-products the entity ~~reeognises~~~~recognizes~~ the following:

Receivable	CU15,000 <sup>16(a)</sup>	
Revenue		CU12,500 <sup>17(b)</sup>
Refund liability ( <del>binding arrangement</del> <del>contract</del> -liability)		CU2,500

<sup>18</sup>  
<sup>19</sup>

~~IE214-IE229.~~ The refund liability (see paragraph ~~5655~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS-15~~) represents a refund of CU25 per-product, which is expected to be provided to the ~~customer-purchaser~~ for the volume-based rebate (ie the difference between the CU150 price stated in the ~~contract binding arrangement~~ that the entity has an unconditional right to receive and the CU125 estimated transaction price).

#### Disclosure

*Illustrating the Consequences of Applying Paragraphs 58, 115 - 116, 122 - 123, AG58 and AG136 - AG138 of [draft] IPSAS [X] (ED XX).*

~~IE230.~~ The following examples illustrate the requirements on the disclosure of disaggregation of revenue, disclosure of the transaction price allocated to the remaining performance obligations, constraining estimates of variable consideration and methods for measuring progress towards complete satisfaction of a performance obligation. The examples are not based on actual transactions.

#### Example 41—Disaggregation of Revenue—Quantitative dDisclosure

~~IE215-IE231.~~ ~~IE210~~—An entity reports the following segments: consumer products, transportation and energy, in accordance with ~~IPSAS 18, Segment Reporting~~~~IFRS-8 Operating Segments~~. When the entity prepares its investor presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (ie goods transferred at a point in time or services transferred over time).

~~IE216-IE232.~~ ~~IE211~~—The entity determines that the categories used in the investor presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph ~~115144~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS-15~~, which is to disaggregate revenue from ~~contracts binding arrangements~~ with ~~customers-purchasers~~ into categories that depict how the nature,

<sup>16</sup> CU 150 per product X 100 products

<sup>17</sup> CU 125 transaction price per product X 100 products

<sup>18</sup> (a) CU150 per product x 100 products

<sup>19</sup> (b) CU125 transaction price per product x 100 products

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amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the consumer products, transportation and energy segments, in accordance with paragraph 116 of [draft] IPSAS [X] (ED XX) IFRS 15.

Segments	Consumer products	Transport	Energy	Total
	CU	CU	CU	CU
<u>Primary geographical markets</u>				
North America	990	2,250	5,250	8,490
Europe	300	750	1,000	2,050
Asia	700	260	—	960
	<u>1,990</u>	<u>3,260</u>	<u>6,250</u>	<u>11,500</u>
<u>Major goods/service lines</u>				
Office supplies	600	—	—	600
Appliances	990	—	—	990
Clothing	400	—	—	400
Motorcycles	—	500	—	500
Automobiles	—	2,760	—	2,760
Solar panels	—	—	1,000	1,000
Power plant	—	—	5,250	5,250
	<u>1,990</u>	<u>3,260</u>	<u>6,250</u>	<u>11,500</u>
<u>Timing of revenue recognition</u>				
Goods transferred at a point in time	1,990	3,260	1,000	6,250
Services transferred over time	—	—	5,250	5,250
	<u>1,990</u>	<u>3,260</u>	<u>6,250</u>	<u>11,500</u>

*Example 42—Disclosure of the ~~Transaction price~~ Price allocated Allocated to the ~~remaining~~ Remaining performance Performance obligations Obligations*

~~IE217-IE233.~~ IE212—On 30 June 30, 20X7, an entity enters into three ~~contracts-binding arrangements~~ (Binding Arrangements Contracts A, B and C) with separate ~~customers-purchasers~~ to provide

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services. Each binding arrangement~~contract~~ has a two-year non-cancellable term. The entity considers the requirements in paragraphs ~~121~~<sup>120</sup>–~~123~~<sup>122</sup> of [draft] IPSAS [X] (ED XX)~~IFRS 15~~ in determining the information in each binding arrangement~~contract~~ to be included in the disclosure of the transaction price allocated to the remaining performance obligations at ~~31~~ December ~~31~~, 20X7.

Binding Arrangement Contract A

~~IE218-IE234.~~ <sup>IE213</sup>—Cleaning services are to be provided over the next two years typically at least once per month. For services provided, the customer-purchaser pays an hourly rate of CU25.

~~IE219-IE235.~~ <sup>IE214</sup>—Because the entity bills a fixed amount for each hour of service provided, the entity has a right to invoice the customer-purchaser in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with paragraph ~~AG58B16~~ of [draft] IPSAS [X] (ED XX)~~IFRS 15~~. Consequently, no disclosure is necessary if the entity elects to apply the practical expedient in paragraph ~~122(b)~~<sup>124(b)</sup> of [draft] IPSAS [X] (ED XX)~~IFRS 15~~.

Binding Arrangement Contract B

~~IE220-IE236.~~ <sup>IE215</sup>—Cleaning services and lawn maintenance services are to be provided as and when needed with a maximum of four visits per month over the next two years. The customer-purchaser pays a fixed price of CU400 per month for both services. The entity measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

~~IE221-IE237.~~ <sup>IE216</sup>—The entity discloses the amount of the transaction price that has not yet been recognised~~recognized~~ as revenue in a table with quantitative time bands that illustrates when the entity expects to recognise~~recognize~~ the amount as revenue. The information for Contract Binding Arrangement B included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this <u>Binding Arrangement contract</u> as of <del>31</del> December <del>31</del> , 20X7	4,800 <sup>20(a)</sup>	2,400 <sup>21(b)</sup>	7,200

<sup>22</sup>  
<sup>23</sup>

Binding Arrangement Contract C

~~IE222-IE238.~~ <sup>IE217</sup>—Cleaning services are to be provided as and when needed over the next two years.

The customer pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the customer's-purchaser's facility (ie a performance bonus). The entity estimates

<sup>20</sup> CU4,800 = CU400 × 12 months.

<sup>21</sup> CU2,400 = CU400 × 6 months

<sup>22</sup> (a) CU4,800 = CU400 × 12 months.

<sup>23</sup> (b) CU2,400 = CU400 × 6 months.

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that it will be entitled to CU750 of the variable consideration. On the basis of the entity's assessment of the factors in paragraph 58 of [draft] IPSAS [X] (ED XX) IFRS 15, the entity includes its estimate of CU750 of variable consideration in the transaction price because it is highly probable that a significant reversal in the amount of cumulative revenue ~~recognised~~recognized will not occur. The entity measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

~~IE223.~~IE239. ~~IE218~~—The entity discloses the amount of the transaction price that has not yet been ~~recognised~~recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to ~~recognise~~recognize the amount as revenue. The entity also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement Contract C included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this <u>binding arrangement</u> <del>contract</del> as of <del>31</del> <u>31</u> December <del>31</del> <u>31</u> , 20X7	1,575 <sup>24(a)</sup>	788 <sup>25(b)</sup>	2,363

<sup>26</sup>  
<sup>27</sup>

~~IE224.~~IE240. In addition, in accordance with paragraph 122 of [draft] IPSAS [X] (ED XX) IFRS 15, the entity discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the requirements for constraining estimates of variable consideration.

*Example 43—Disclosure of the ~~Transaction price~~Price allocated ~~Allocated to the remaining~~Remaining performance ~~Performance obligations~~Obligations—~~qualitative~~Qualitative disclosureDisclosure*

~~IE225.~~IE241. ~~IE220~~—On 1 January 1, 20X2, an entity enters into a binding arrangement~~contract~~ with a customer purchaser to construct a commercial building for fixed consideration of CU10 million. The construction of the building is a single performance obligation that the entity satisfies over time. As of ~~31~~31 December ~~31~~31, 20X2, the entity has ~~recognised~~recognized CU3.2 million of revenue. The entity estimates that construction will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

~~IE226.~~IE242. ~~IE221~~—At 31 December 20X2, the entity discloses the amount of the transaction price that has not yet been ~~recognised~~recognized as revenue in its disclosure of the transaction price allocated to the remaining performance obligations. The entity also discloses an explanation of

<sup>24</sup> Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

<sup>25</sup> CU1,575 ÷ 2 = CU788 (ie for 6 months of the year).

<sup>26</sup> (a) Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

<sup>27</sup> (b) CU1,575 ÷ 2 = CU788 (ie for 6 months of the year).



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when the entity expects to ~~recognise~~recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining performance obligation or by providing a qualitative explanation. Because the entity is uncertain about the timing of revenue recognition, the entity discloses this information qualitatively as follows:

'As of ~~31~~December ~~31~~, 20X2, the aggregate amount of the transaction price allocated to the remaining performance obligation is CU6.8 million and the entity will ~~recognise~~recognize this revenue as the building is completed, which is expected to occur over the next ~~12~~–18 months.'

## Warranties

Illustrating the Consequences of Applying Paragraphs 28-29, 61-66 and AG71-AG76 of [draft] IPSAS [X] (ED XX).

IE243. The following example illustrates the requirements on identifying performance obligations and warranties. The example is not based on actual transactions.

### Example 44—Warranties

~~IE227-IE244.~~ ~~IE223~~—An entity, a manufacturer, provides its ~~customer-purchaser~~ with a warranty with the purchase of a product. The warranty provides assurance that the product complies with agreed-upon specifications and will operate as promised for one year from the date of purchase. The ~~contract-binding arrangement~~ also provides the ~~customer-purchaser~~ with the right to receive up to 20 hours of training services on how to operate the product at no additional cost.

~~IE228-IE245.~~ ~~IE224~~—The entity assesses the goods and services in the ~~binding arrangement~~contract to determine whether they are distinct and therefore give rise to separate performance obligations.

~~IE229-IE246.~~ ~~IE225~~—The product and training services are each capable of being distinct in accordance with paragraphs 28(a)~~27(a)~~ and 29~~28~~ of [draft] IPSAS [X] (ED XX)~~IFRS 15~~, because the ~~customer-purchaser~~ can benefit ~~or receive service potential~~ from the product on its own without the training services and can benefit ~~or receive service potential~~ from the training services together with the product that already has been transferred by the entity. The entity regularly sells the product separately without the training services.

~~IE230-IE247.~~ ~~IE226~~—The entity next assesses whether its promises to transfer the product and to provide the training services are separately identifiable in accordance with paragraphs 28(b)~~27(b)~~ and 30~~29~~ of [draft] IPSAS [X] (ED XX)~~IFRS 15~~. The entity does not provide a significant service of integrating the training services with the product (see paragraph 30(a)~~29(a)~~ of [draft] IPSAS [X] (ED XX)~~IFRS 15~~). The training services and product do not significantly modify or ~~customise~~customize each other (see paragraph 30(b)~~29(b)~~ of [draft] IPSAS [X] (ED XX)~~IFRS 15~~). The product and the training services are not highly interdependent or highly interrelated (see paragraph 30(c)~~29(c)~~ of [draft] IPSAS [X] (ED XX)~~IFRS 15~~). The entity would be able to fulfil its promise to transfer the product independently of its efforts to subsequently provide the training services, and would be able to provide training services to any ~~customer-purchaser~~ that had previously acquired its product. Consequently, the entity concludes that its promise to transfer the product and its promise to provide training services are not inputs to a combined item, and, therefore, are each separately identifiable.

~~IE231-IE248.~~ ~~IE227~~—The product and training services are each distinct in accordance with paragraph ~~28~~27 of [draft] IPSAS [X] (ED XX)~~IFRS 15~~ and therefore give rise to two separate performance obligations.

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~~IE232-IE249.~~ ~~IE228~~—Finally, the entity assesses the promise to provide a warranty and observes that the warranty provides the ~~customer-purchaser~~ with the assurance that the product will function as intended for one year. The entity concludes, in accordance with paragraphs ~~AG71\_B28–AG76B33~~ of ~~[draft] IPSAS [X] (ED XX)~~~~IFRS 16~~, that the warranty does not provide the ~~customer-purchaser~~ with a good or service in addition to that assurance and, therefore, the entity does not account for it as a performance obligation. The entity accounts for the assurance-type warranty in accordance with the requirements in ~~IPSAS\_3719~~.

~~IE233-IE250.~~ ~~IE229~~—As a result, the entity allocates the transaction price to the two performance obligations (the product and the training services) and ~~recognises~~~~recognizes~~ revenue when (or as) those performance obligations are satisfied.

**Principal ~~v~~Versus agent-Agent considerationsConsiderations**

*Illustrating the Consequences of Applying Paragraphs AG77 - AG85 of [draft] IPSAS [X] (ED XX).*

~~IE251.~~ The following examples illustrate the requirements on principal versus agent considerations. The examples are not based on actual transactions.

*Example 45—Arranging for the ~~p~~Provision of ~~goods-Goods~~ or ~~services-Services~~ (~~entity-Entity~~ is an ~~agentAgent~~)*

~~IE234-IE252.~~ ~~IE231~~—An entity operates a website that enables ~~customers-purchasers~~ to purchase goods from a range of suppliers who deliver the goods directly to the ~~customerspurchasers~~. Under the terms of the entity's ~~contracts-binding arrangements~~ with suppliers, when a good is purchased via the website, the entity is entitled to a commission that is equal to 10\_per\_cent of the sales\_price. The entity's website facilitates payment between the supplier and the ~~purchasers customer~~ at prices that are set by the supplier. The entity requires payment from ~~customers-purchaser~~ before orders are processed and all orders are non-refundable. The entity has no further obligations to the ~~customer-purchaser~~ after arranging for the products to be provided to the ~~customerpurchaser~~.

~~IE235-IE253.~~ ~~IE232~~—To determine whether the entity's performance obligation is to provide the specified goods itself (ie the entity is a principal) or to arrange for those goods to be provided by the supplier (ie the entity is an agent), the entity identifies the specified good or service to be provided to the ~~customer-purchaser~~ and assesses whether it controls that good or service before the good or service is transferred to the ~~customerpurchaser~~.

~~IE236-IE254.~~ ~~IE232A~~—The website operated by the entity is a marketplace in which suppliers offer their goods and ~~customers-purchasers~~ purchase the goods that are offered by the suppliers. Accordingly, the entity observes that the specified goods to be provided to ~~purchaserscustomers~~ that use the website are the goods provided by the suppliers, and no other goods or services are promised to ~~purchaserscustomers~~ by the entity.

~~IE237-IE255.~~ ~~IE232B~~—The entity concludes that it does not control the specified goods before they are transferred to ~~purchaserscustomers~~ that order goods using the website. The entity does not at any time have the ability to direct the use of the goods transferred to ~~purchaserseustomers~~. For example, it cannot direct the goods to parties other than the ~~customer-purchaser~~ or prevent the supplier from transferring those goods to the ~~customerpurchaser~~. The entity does not control the suppliers' inventory of goods used to fulfil the orders placed by ~~purchaserseustomers~~ using the website.

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~~IE238-IE256.~~ ~~IE232C~~—As part of reaching that conclusion, the entity considers the following indicators in paragraph ~~AG83B37~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~. The entity concludes that these indicators provide further evidence that it does not control the specified goods before they are transferred to the ~~customerspurchasers~~:

- (a) ~~(a)~~—~~t~~The supplier is primarily responsible for fulfilling the promise to provide the goods to the ~~customerpurchaser~~. The entity is neither obliged to provide the goods if the supplier fails to transfer the goods to the ~~customerpurchaser~~, nor responsible for the acceptability of the goods.
- (b) ~~(b)~~—~~t~~The entity does not take inventory risk at any time before or after the goods are transferred to the ~~customerpurchaser~~. The entity does not commit itself to obtain the goods from the supplier before the goods are purchased by the ~~customerpurchaser~~, and does not accept responsibility for any damaged or returned goods.
- (c) ~~(c)~~—~~t~~The entity does not have discretion in establishing prices for the supplier's goods. The sales price is set by the supplier.

~~IE239-IE257.~~ ~~IE233~~—Consequently, the entity concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When the entity satisfies its promise to arrange for the goods to be provided by the supplier to the ~~customer-purchaser~~ (which, in this example, is when goods are purchased by the ~~customerpurchaser~~), the entity ~~recognisesrecognizes~~ revenue in the amount of the commission to which it is entitled.

*Example 46—Promise to ~~p~~Provide ~~goods-Goods~~ or ~~services-Services~~ (~~entity-Entity~~ is a ~~principalPrincipal~~)*

~~IE240-IE258.~~ ~~IE234~~—An entity enters into a ~~contract-binding arrangement~~ with a ~~customer-purchaser~~ for equipment with unique specifications. The entity and the ~~customer-purchaser~~ develop the specifications for the equipment, which the entity communicates to a supplier that the entity ~~contracts-enters into a binding arrangement~~ with to manufacture the equipment. The entity also arranges to have the supplier deliver the equipment directly to the ~~customerpurchaser~~. Upon delivery of the equipment to the ~~customerpurchaser~~, the terms of the ~~contract-binding arrangement~~ require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment.

~~IE241-IE259.~~ ~~IE235~~—The entity and the ~~customer-purchaser~~ negotiate the selling price and the entity invoices the ~~customer-purchaser~~ for the agreed-upon price with 30-day payment terms. The entity's ~~profit-surplus~~ is based on the difference between the sales price negotiated with the ~~customer-purchaser~~ and the price charged by the supplier.

~~IE242-IE260.~~ ~~IE236~~—The ~~contract-binding arrangement~~ between the entity and the ~~customer-purchaser~~ requires the ~~customer-purchaser~~ to seek remedies for defects in the equipment from the supplier under the supplier's warranty. However, the entity is responsible for any corrections to the equipment required resulting from errors in specifications.

~~IE243-IE261.~~ ~~IE237~~—To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by another party (ie the entity is an agent), the entity identifies the specified good or service to be provided to the ~~customer-purchaser~~ and assesses whether it controls that good or service before the good or service is transferred to the ~~customerpurchaser~~.

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~~IE244-IE262.~~ ~~IE237A-~~ The entity concludes that it has promised to provide the ~~customer-purchaser~~ with ~~specialisedspecialized~~ equipment designed by the entity. Although the entity has subcontracted the manufacturing of the equipment to the supplier, the entity concludes that the design and manufacturing of the equipment are not distinct, because they are not separately identifiable (ie there is a single performance obligation). The entity is responsible for the overall management of the ~~contract-binding arrangement~~ (for example, by ensuring that the manufacturing service conforms to the specifications) and, thus, provides a significant service of integrating those items into the combined output—the ~~specialisedspecialized~~ equipment—for which the ~~customer-purchaser~~ has ~~contractedentered into a binding arrangement~~. In addition, those activities are highly interrelated. If necessary modifications to the specifications are identified as the equipment is manufactured, the entity is responsible for developing and communicating revisions to the supplier and for ensuring that any associated rework required conforms with the revised specifications. Accordingly, the entity identifies the specified good to be provided to the ~~customer-purchaser~~ as the ~~specialisedspecialized~~ equipment.

~~IE245-IE263.~~ ~~IE237B-~~ The entity concludes that it controls the ~~specialisedspecialized~~ equipment before that equipment is transferred to the ~~customer-purchaser~~ (see paragraph ~~AG80(c)B35A(c)~~). The entity provides the significant integration service necessary to produce the ~~specialisedspecialized~~ equipment and, therefore, controls the ~~specialisedspecialized~~ equipment before it is transferred to the ~~customer-purchaser~~. The entity directs the use of the supplier's manufacturing service as an input in creating the combined output that is the ~~specialisedspecialized~~ equipment. In reaching the conclusion that it controls the ~~specialisedspecialized~~ equipment before that equipment is transferred to the ~~customer-purchaser~~, the entity also observes that, even though the supplier delivers the ~~specialisedspecialized~~ equipment to the ~~customer-purchaser~~, the supplier has no ability to direct its use (ie the terms of the ~~contract-binding arrangement~~ between the entity and the supplier preclude the supplier from using the ~~specialisedspecialized~~ equipment for another purpose or directing that equipment to another ~~customer-purchaser~~). The entity also obtains the remaining benefits or service potential from the ~~specialisedspecialized~~ equipment by being entitled to the consideration in the ~~binding arrangementcontract~~ from the ~~customer-purchaser~~.

~~IE246-IE264.~~ ~~IE238-~~ Thus, the entity concludes that it is a principal in the transaction. The entity does not consider the indicators in paragraph ~~AG83B37~~ of ~~[draft] IPSAS [X] (ED XX)IFRS-15~~ because the evaluation above is conclusive without consideration of the indicators. The entity ~~recognisesrecognizes~~ revenue in the gross amount of consideration to which it is entitled from the ~~customer-purchaser~~ in exchange for the ~~specialisedspecialized~~ equipment.

*Example 46A—Promise to ~~provide goods-Goods~~ or ~~services-Services~~ (~~entity-Entity~~ is a ~~principalPrincipal~~)*

~~IE247-IE265.~~ ~~IE238A-~~ An entity enters into a ~~contract-binding arrangement~~ with a ~~customer-purchaser~~ to provide office maintenance services. The entity and the ~~customer-purchaser~~ define and agree on the scope of the services and negotiate the price. The entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the ~~contractbinding arrangement~~. The entity invoices the ~~customer-purchaser~~ for the agreed-upon price on a monthly basis with 10-day payment terms.

~~IE248-IE266.~~ ~~IE238B-~~ The entity regularly engages third-party service providers to provide office maintenance services to its ~~customerspurchasers~~. When the entity obtains a ~~contract-binding arrangement~~ from a ~~customer-purchaser~~, the entity enters into a ~~contract-binding arrangement~~ with

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one of those service providers, directing the service provider to perform office maintenance services for the customerpurchaser. The payment terms in the contracts-binding arrangements with the service providers are generally aligned with the payment terms in the entity's binding arrangementscontracts with customerspurchasers. However, the entity is obliged to pay the service provider even if the customer-purchaser fails to pay.

~~IE249-IE267.~~ ~~IE238C~~ To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the customer-purchaser and assesses whether it controls that good or service before the good or service is transferred to the customerpurchaser.

~~IE250-IE268.~~ ~~IE238D~~ The entity observes that the specified services to be provided to the customer purchaser are the office maintenance services for which the customer-purchaser contractedentered into a binding arrangement, and that no other goods or services are promised to the customerpurchaser. While the entity obtains a right to office maintenance services from the service provider after entering into the contract-binding arrangement with the customerpurchaser, that right is not transferred to the customerpurchaser. That is, the entity retains the ability to direct the use of, and obtain substantially all the remaining benefits or service potential from, that right. For example, the entity can decide whether to direct the service provider to provide the office maintenance services for that customerpurchaser, or for another customerpurchaser, or at its own facilities. The customer-purchaser does not have a right to direct the service provider to perform services that the entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the entity from the service provider is not the specified good or service in its binding arrangement contract with the customerpurchaser.

~~IE251-IE269.~~ ~~IE238E~~ The entity concludes that it controls the specified services before they are provided to the customerpurchaser. The entity obtains control of a right to office maintenance services after entering into the contract-binding arrangement with the customer-purchaser but before those services are provided to the customerpurchaser. The terms of the entity's binding arrangement contract with the service provider give the entity the ability to direct the service provider to provide the specified services on the entity's behalf (see paragraph ~~AG80(b)B35A(b)~~). In addition, the entity concludes that the following indicators in paragraph ~~AG83B37~~ of [draft] IPSAS [X] (ED XX)IFRS 15 provide further evidence that the entity controls the office maintenance services before they are provided to the customerpurchaser:

- (a) ~~(a)~~ ~~—~~ The entity is primarily responsible for fulfilling the promise to provide office maintenance services. Although the entity has hired a service provider to perform the services promised to the customerpurchaser, it is the entity itself that is responsible for ensuring that the services are performed and are acceptable to the customer-purchaser (ie the entity is responsible for fulfilment of the promise in the binding arrangementcontract, regardless of whether the entity performs the services itself or engages a third-party service provider to perform the services).
- (b) ~~(b)~~ ~~—~~ The entity has discretion in setting the price for the services to the customerpurchaser.

~~IE252-IE270.~~ ~~IE238F~~ The entity observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangementcontract with the customerpurchaser. Thus, the entity has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the entity concludes that it controls the office maintenance services before they are provided to the customer on the basis of the evidence in paragraph ~~IE269IE238E~~.

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~~IE253-IE271.~~ ~~IE238G~~ Thus, the entity is a principal in the transaction and ~~recognises~~recognizes revenue in the amount of consideration to which it is entitled from the customer-purchaser in exchange for the office maintenance services.

*Example 47—Promise to ~~p~~Provide ~~goods-Goods~~ or ~~services-Services~~. (~~entity-Entity~~ is a ~~principalPrincipal~~)*

~~IE254-IE272.~~ ~~IE239~~—An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance.

~~IE255-IE273.~~ ~~IE240~~—The entity determines the prices at which the airline tickets will be sold to its ~~customers~~purchasers. The entity sells the tickets and collects the consideration from ~~customers~~ purchases when the tickets are purchased.

~~IE256-IE274.~~ ~~IE241~~—The entity also assists the ~~customers-purchasers~~ in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer-purchaser for dissatisfaction with the service.

~~IE257-IE275.~~ ~~IE242~~—To determine whether the entity's performance obligation is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by another party (ie the entity is an agent), the entity identifies the specified good or service to be provided to the customer-purchaser and assesses whether it controls that good or service before the good or service is transferred to the purchasercustomer.

~~IE258-IE276.~~ ~~IE242A~~ The entity concludes that, with each ticket that it commits itself to purchase from the airline, it obtains control of a right to fly on a specified flight (in the form of a ticket) that the entity then transfers to one of its ~~purchaserseustomers~~ (see paragraph ~~AG80(a)~~B35A(a)). Consequently, the entity determines that the specified good or service to be provided to its purchasercustomer is that right (to a seat on a specific flight) that the entity controls. The entity observes that no other goods or services are promised to the purchasercustomer.

~~IE259-IE277.~~ ~~IE242B~~ The entity controls the right to each flight before it transfers that specified right to one of its ~~purchasers~~ customers because the entity has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract-binding arrangement with a customer-purchaser and, if so, which binding arrangementcontract it will fulfil. The entity also has the ability to obtain the remaining benefits and service potential from that right by either reselling the ticket and obtaining all of the proceeds from the sale or, alternatively, using the ticket itself.

~~IE260-IE278.~~ ~~IE242C~~ The indicators in paragraphs ~~AG83(b)~~ B37(b) ~~-(c)(e)~~ of [draft] IPSAS [X] (ED XX)IFRS 15 also provide relevant evidence that the entity controls each specified right (ticket) before it is transferred to the customerpurchaser. The entity has inventory risk with respect to the ticket because the entity committed itself to obtain the ticket from the airline before obtaining a binding arrangement contract with a customer-purchaser to purchase the ticket. This is because the entity is obliged to pay the airline for that right regardless of whether it is able to obtain a customer-purchaser to resell the ticket to or whether it can obtain a favourablefavorable price for the ticket. The entity also establishes the price that the customer-purchaser will pay for the specified ticket.

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~~IE261-IE279.~~ ~~IE243~~—Thus, the entity concludes that it is a principal in the transactions with ~~customerspurchasers~~. The entity ~~recognises~~recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the ~~customerspurchasers~~.

*Example 48—Arranging for the ~~p~~Provision of ~~g~~Goods or ~~s~~Services (~~entity-Entity~~ is an ~~agentAgent~~)*

~~IE262-IE280.~~ ~~IE244~~—An entity sells vouchers that entitle ~~customers-purchasers~~ to future meals at specified restaurants. The sales price of the voucher provides the ~~purchaser customer~~ with a significant discount when compared with the normal selling prices of the meals (for example, a ~~purchaser customer~~ pays CU100 for a voucher that entitles the ~~purchaser customer~~ to a meal at a restaurant that would otherwise cost CU200). The entity does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a ~~purchasereustomer~~; instead, it purchases vouchers only as they are requested by the ~~customerspurchasers~~. The entity sells the vouchers through its website and the vouchers are non-refundable.

~~IE263-IE281.~~ ~~IE245~~—The entity and the restaurants jointly determine the prices at which the vouchers will be sold to ~~customerspurchasers~~. Under the terms of its ~~contracts-binding arrangements~~ with the restaurants, the entity is entitled to 30-per-cent of the voucher price when it sells the voucher.

~~IE264-IE282.~~ ~~IE246~~—The entity also assists the ~~customers-purchasers~~ in resolving complaints about the meals and has a buyer satisfaction programme. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a ~~customer-purchaser~~ for dissatisfaction with the service.

~~IE265-IE283.~~ ~~IE247~~—To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the ~~customer-purchaser~~ and assesses whether it controls the specified good or service before that good or service is transferred to the ~~customerpurchaser~~.

~~IE266-IE284.~~ ~~IE247A~~ A ~~customer-purchaser~~ obtains a voucher for the restaurant that it selects. The entity does not engage the restaurants to provide meals to ~~customers-purchasers~~ on the entity's behalf as described in the indicator in paragraph ~~AG83(a)~~~~B37(a)~~ of ~~draft]~~ IPSAS [X] (ED XX)~~IFRS 15~~. Therefore, the entity observes that the specified good or service to be provided to the ~~customer purchaser~~ is the right to a meal (in the form of a voucher) at a specified restaurant or restaurants, which the ~~customer-purchaser~~ purchases and then can use itself or transfer to another person. The entity also observes that no other goods or services (other than the vouchers) are promised to the ~~customerspurchasers~~.

~~IE267-IE285.~~ ~~IE247B~~ The entity concludes that it does not control the voucher (right to a meal) at any time. In reaching this conclusion, the entity principally considers the following:

- (a) ~~(a)~~—~~t~~The vouchers are created only at the time that they are transferred to the ~~customers-purchasers~~ and, thus, do not exist before that transfer. Therefore, the entity does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining benefits or service potential from the vouchers, before they are transferred to ~~customerspurchasers~~.
- (b) ~~(b)~~—~~t~~The entity neither purchases, nor commits itself to purchase, vouchers before they are sold to ~~customerspurchasers~~. The entity also has no responsibility to accept any returned



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vouchers. Therefore, the entity does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG83(b)B37(b) of draft] IPSAS [X] (ED XX)IFRS-15.

IE268-IE286. IE248—Thus, the entity concludes that it is an agent with respect to the vouchers. The entity ~~recognises~~recognizes revenue in the net amount of consideration to which the entity will be entitled in exchange for arranging for the restaurants to provide vouchers to ~~customers-purchasers~~ for the restaurants' meals, which is the 30-per-cent commission it is entitled to upon the sale of each voucher.

*Example 48A—Entity is a ~~p~~Principal and an ~~agent~~Agent in the ~~s~~Same ~~contract~~Binding Arrangement*

IE269-IE287. IE248A An entity sells services to assist its ~~customers-purchasers~~ in more effectively targeting potential recruits for open job positions. The entity performs several services itself, such as interviewing candidates and performing background checks. As part of the ~~contract~~binding arrangement with a ~~customer~~customerpurchaser, the ~~purchaser~~customer agrees to obtain a ~~licence~~license to access a third party's database of information on potential recruits. The entity arranges for this ~~licence~~license with the third party, but the ~~customer-purchaser~~ contracts-enters into a binding arrangement directly with the database provider for the ~~licence~~license. The entity collects payment on behalf of the third-party database provider as part of the entity's overall invoicing to the ~~customer~~customerpurchaser. The database provider sets the price charged to the ~~customer~~customerpurchaser for the ~~licence~~license, and is responsible for providing technical support and credits to which the ~~customer-purchaser~~ may be entitled for service down time or other technical issues.

IE270-IE288. IE248B To determine whether the entity is a principal or an agent, the entity identifies the specified goods or services to be provided to the ~~customer~~customerpurchaser, and assesses whether it controls those goods or services before they are transferred to the ~~purchaser~~customer.

IE271-IE289. IE248C For the purpose of this example, it is assumed that the entity concludes that its recruitment services and the database access ~~licence~~license are each distinct on the basis of its assessment of the requirements in paragraphs 2827–3130 of draft] IPSAS [X] (ED XX)IFRS-15. Accordingly, there are two specified goods or services to be provided to the ~~customer~~customerpurchaser—access to the third party's database and recruitment services.

IE272-IE290. IE248D The entity concludes that it does not control the access to the database before it is provided to the ~~customer~~customerpurchaser. The entity does not at any time have the ability to direct the use of the ~~licence~~license because the ~~customer-purchaser~~ contracts-enters into a binding arrangement for the ~~licence~~license directly with the database provider. The entity does not control access to the provider's database—it cannot, for example, grant access to the database to a party other than the ~~customer~~customerpurchaser, or prevent the database provider from providing access to the ~~customer~~customerpurchaser.

IE273-IE291. IE248E As part of reaching that conclusion, the entity also considers the indicators in paragraph AG83B37 of draft] IPSAS [X] (ED XX)IFRS-15. The entity concludes that these indicators provide further evidence that it does not control access to the database before that access is provided to the ~~customer~~customerpurchaser:

- (a) ~~(a)~~—tThe entity is not responsible for fulfilling the promise to provide the database access service. The ~~customer~~ customerpurchaser enters into a binding arrangement ~~contracts-~~for the ~~licence~~license directly with the third-party database provider and the database provider is responsible for the acceptability of the database access (for example, by providing technical support or service credits).



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- (b) ~~(b)~~—~~t~~The entity does not have inventory risk because it does not purchase, or commit itself to purchase, the database access before the ~~customer-purchaser enters into a binding arrangement~~~~contracts~~ for database access directly with the database provider.
- (c) ~~(c)~~—~~t~~The entity does not have discretion in setting the price for the database access with the ~~customer-purchaser~~ because the database provider sets that price.

~~IE274-IE292.~~ ~~IE248F~~—Thus, the entity concludes that it is an agent in relation to the third party's database service. In contrast, the entity concludes that it is the principal in relation to the recruitment services because the entity performs those services itself and no other party is involved in providing those services to the ~~customer-purchaser~~.

**Customer-Purchaser's Options for Additional Goods or Services**

*Illustrating the Consequences of Applying Paragraphs 28-30, and AG86-AG90 of [draft] IPSAS [X] (ED XX).*

~~IE293.~~ The following examples illustrate the requirements on identifying performance obligations, customer loyalty programs and purchaser options for additional goods or services. The examples are not based on actual transactions.

*Example 49—Option that ~~p~~Provides the ~~customer-Purchaser~~ with a ~~m~~Material ~~r~~Right (~~d~~Discount ~~v~~Voucher)*

~~IE275-IE294.~~ ~~IE250~~—An entity enters into a ~~contract-binding arrangement~~ for the sale of Product\_A for CU100. As part of the ~~binding arrangement~~~~contract~~, the entity gives the ~~customer-purchaser~~ a 40\_per-cent discount voucher for any future purchases up to CU100 in the next 30\_days. The entity intends to offer a 10\_per-cent discount on all sales during the next 30 days as part of a seasonal promotion. The 10\_per-cent discount cannot be used in addition to the 40\_per-cent discount voucher.

~~IE276-IE295.~~ ~~IE251~~—Because all ~~customers-purchasers~~ will receive a 10\_per-cent discount on purchases during the next 30 days, the only discount that provides the ~~customer-purchaser~~ with a material right is the discount that is incremental to that 10\_per-cent (ie the additional 30\_per-cent discount). The entity accounts for the promise to provide the incremental discount as a performance obligation in the ~~contract-binding arrangement~~ for the sale of Product\_A.

~~IE277-IE296.~~ ~~IE252~~—To estimate the stand-alone selling price of the discount voucher in accordance with paragraph AG89B42 of ~~draft~~ IPSAS [X] (ED XX)~~IFRS-15~~, the entity estimates an 80\_per-cent likelihood that a ~~customer-purchaser~~ will redeem the voucher and that a ~~customer-purchaser~~ will, on average, purchase CU50 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is CU12 (CU50 average purchase price of additional products × 30\_per-cent incremental discount × 80\_per-cent likelihood of exercising the option). The stand-alone selling prices of Product\_A and the discount voucher and the resulting allocation of the CU100 transaction price are as follows:

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Performance obligation	Stand-alone selling price	
		<b>CU</b>
Product A		100
Discount voucher		12
Total		112
	<b>Allocated transaction price</b>	
Product A		89 (CU100 ÷ CU112 × CU100)
Discount voucher		11 (CU12 ÷ CU112 × CU100)
Total		100

~~IE278-IE297.~~ ~~IE253~~—The entity allocates CU89 to Product A and ~~recognises~~recognizes revenue for Product A when control transfers. The entity allocates CU11 to the discount voucher and ~~recognises~~recognizes revenue for the voucher when the ~~customer-purchaser~~ redeems it for goods or services or when it expires.

*Example 50—Option that does not ~~provide~~ the ~~customer-Purchaser~~ with a ~~material-Material right-Right~~ (~~additional-Additional goods-Goods~~ or ~~s~~Services)*

~~IE279-IE298.~~ ~~IE254~~—An entity in the telecommunications ~~industry-sector~~ enters into a ~~contract binding arrangement~~ with a ~~customer-purchaser~~ to provide a handset and monthly network service for two years. The network service includes up to 1,000 call minutes and 1,500 text messages each month for a fixed monthly fee. The ~~binding arrangement contract~~ specifies the price for any additional call minutes or texts that the ~~customer-purchaser~~ may choose to purchase in any month. The prices for those services are equal to their stand-alone selling prices.

~~IE280-IE299.~~ ~~IE255~~—The entity determines that the promises to provide the handset and network service are each separate performance obligations. This is because the ~~customer-purchaser~~ can benefit ~~or receive service potential~~ from the handset and network service either on their own or together with other resources that are readily available to the ~~customer-purchaser~~ in accordance with the criterion in paragraph ~~28(a)~~27(a) of ~~draft] IPSAS [X] (ED XX)~~IFRS-15. In addition, the handset and network service are separately identifiable in accordance with the criterion in paragraph ~~28(b)~~27(b) of ~~draft] IPSAS [X] (ED XX)~~IFRS-15 (on the basis of the factors in paragraph ~~30~~29 of ~~draft] IPSAS [X] (ED XX)~~IFRS-15).

~~IE284-IE300.~~ ~~IE256~~—The entity determines that the option to purchase the additional call minutes and texts does not provide a material right that the ~~customer-purchaser~~ would not receive without entering into the ~~contract-binding arrangement~~ (see paragraph ~~AG88B44~~ of ~~draft] IPSAS [X] (ED XX)~~IFRS-15). This is because the prices of the additional call minutes and texts reflect the stand-alone selling prices for those services. Because the option for additional call minutes and texts does not grant the ~~customer-purchaser~~ a material right, the entity concludes it is not a performance obligation in the ~~binding arrangement~~contract. Consequently, the entity does not allocate any of the transaction price to the option for additional call minutes or texts. The entity will

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~~recognise~~recognize revenue for the additional call minutes or texts if and when the entity provides those services.

*Example 51—Option that ~~p~~P provides the ~~customer~~Purchaser with a ~~m~~Material ~~r~~Right (~~r~~Renewal ~~o~~Option)*

~~IE282-IE301.~~ IE257—An entity enters into 100 separate binding arrangements contracts with customers purchasers to provide one year of maintenance services for CU1,000 per binding arrangementcontract. The terms of the binding arrangementscontracts specify that at the end of the year, each customer—purchaser has the option to renew the maintenance binding arrangementcontract for a second year by paying an additional CU1,000. Customers Purchasers who renew for a second year are also granted the option to renew for a third year for CU1,000. The entity charges significantly higher prices for maintenance services to customers purchasers that do not sign up for the maintenance services initially (ie when the products are new). That is, the entity charges CU3,000 in Year 2 and CU5,000 in Year 3 for annual maintenance services if a customer—purchaser does not initially purchase the service or allows the service to lapse.

~~IE283-IE302.~~ IE258—The entity concludes that the renewal option provides a material right to the customer-purchaser that it would not receive without entering into the contractbinding arrangement, because the price for maintenance services are significantly higher if the customer-purchaser elects to purchase the services only in Year ~~2~~ or ~~3~~. Part of each customer's—purchaser's payment of CU1,000 in the first year is, in effect, a non-refundable prepayment of the services to be provided in a subsequent year. Consequently, the entity concludes that the promise to provide the option is a performance obligation.

~~IE284-IE303.~~ IE259—The renewal option is for a continuation of maintenance services and those services are provided in accordance with the terms of the existing binding arrangementcontract. Instead of determining the stand-alone selling prices for the renewal options directly, the entity allocates the transaction price by determining the consideration that it expects to receive in exchange for all the services that it expects to provide, in accordance with paragraph ~~AG90B43~~ of draft IPSAS [X] (ED XX)IFRS-15.

~~IE285-IE304.~~ IE260—The entity expects 90-customers—purchasers to renew at the end of Year ~~1~~ (90-per-cent of binding arrangements contracts sold) and 81-customers to renew at the end of Year 2 (90-per-cent of the 90-customers-purchasers that renewed at the end of Year ~~1~~ will also renew at the end of Year ~~2~~, that is 81-per-cent of binding arrangementscontracts sold).

~~IE286-IE305.~~ IE261—At the inception of the binding arrangementcontract~~inception~~, the entity determines the expected consideration for each binding arrangementcontract is CU2,710 [CU1,000 + (90 per cent × CU1,000) + (81 per cent × CU1,000)]. The entity also determines that ~~recognising~~recognizing revenue on the basis of costs incurred relative to the total expected costs depicts the transfer of services to the customerpurchaser. Estimated costs for a three-year binding arrangement contract are as follows:

	CU
Year 1	600
Year 2	750
Year 3	1,000

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~~IE287-IE306.~~ ~~IE262~~—Accordingly, the pattern of revenue recognition expected ~~at-at the inception of the~~  
~~binding arrangement~~~~contract inception~~ for each ~~binding arrangement~~~~contract~~ is as follows:

	Expected costs adjusted for likelihood of <del>contract</del> renewal <del>of the</del> <del>binding arrang</del> <del>ement</del>		Allocation of consideration expected	
	CU		CU	
Year 1	600	(CU600 × 100%)	780	[(CU600 ÷ CU2,085) × CU2,710]
Year 2	675	(CU750 × 90%)	877	[(CU675 ÷ CU2,085) × CU2,710]
Year 3	810	(CU1,000 × 81%)	1,053	[(CU810 ÷ CU2,085) × CU2,710]
Total	<u>2,085</u>		<u>2,710</u>	

~~IE288-IE307.~~ ~~IE263~~—Consequently, at ~~the contract~~-inception ~~of the binding arrangement~~, the entity allocates to the option to renew at the end of Year-1 CU22,000 of the consideration received to date [cash of CU100,000 – revenue to be ~~recognised~~~~recognized~~ in Year-1 of CU78,000 (CU780 × 100)].

~~IE289-IE308.~~ ~~IE264~~—Assuming there is no change in the entity's expectations and the 90-~~customers~~  
~~purchasers~~ renew as expected, at the end of the first year, the entity has collected cash of CU190,000 [(100 × CU1,000) + (90 × CU1,000)], has ~~recognised~~~~recognized~~ revenue of CU78,000 (CU780 × 100) and has ~~recognised~~~~recognized~~ a ~~binding arrangement~~ ~~contract~~-liability of CU112,000.

~~IE290-IE309.~~ ~~IE265~~—Consequently, upon renewal at the end of the first year, the entity allocates CU24,300 to the option to renew at the end of Year-2 [cumulative cash of CU190,000 less cumulative revenue ~~recognised~~~~recognized~~ in Year-1 and to be ~~recognised~~~~recognized~~ in Year-2 of CU165,700 (CU78,000 + CU877 × 100)].

~~IE291-IE310.~~ ~~IE266~~—If the actual number of ~~contract~~-renewals ~~to the binding arrangement~~ was different than what the entity expected, the entity would update the transaction price and the revenue ~~recognised~~~~recognized~~ accordingly.

*Example 52—Customer Purchaser Loyalty pProgramme*

~~IE292-IE311.~~ ~~IE267~~—An entity has a ~~customer-purchaser~~ loyalty programme that rewards a ~~customer~~  
~~purchaser~~ with one ~~purchaser~~~~customer~~ loyalty point for every CU10 of purchases. Each point is redeemable for a CU1 discount on any future purchases of the entity's products. During a reporting period, ~~customers-purchasers~~ purchase products for CU100,000 and earn 10,000-points that are redeemable for future purchases. The consideration is fixed and the stand-alone selling price of the purchased products is CU100,000. The entity expects 9,500 points to be redeemed. The entity

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estimates a stand-alone selling price of CU0.95 per point (~~totalling~~totaling CU9,500) on the basis of the likelihood of redemption in accordance with paragraph ~~AG89B42~~ of draft IPSAS [X] (~~ED XX~~)IFRS 15.

~~IE293-IE312.~~ ~~IE268~~—The points provide a material right to ~~customers-purchasers~~ that they would not receive without entering into a ~~contract~~binding arrangement. Consequently, the entity concludes that the promise to provide points to the ~~customer-purchaser~~ is a performance obligation. The entity allocates the transaction price (CU100,000) to the product and the points on a relative stand-alone selling price basis as follows:

**CU**

Product	91,324	[CU100,000 × (CU100,000 stand-alone selling price ÷ CU109,500)]
Points	8,676	[CU100,000 × (CU9,500 stand-alone selling price ÷ CU109,500)]

~~IE294-IE313.~~ ~~IE269~~—At the end of the first reporting period, 4,500 points have been redeemed and the entity continues to expect 9,500 points to be redeemed in total. The entity ~~recognises~~recognizes revenue for the loyalty points of CU4,110 [(4,500 points ÷ 9,500 points) × CU8,676] and ~~recognises~~recognizes a ~~contract~~binding arrangement liability of CU4,566 (CU8,676 – CU4,110) for the unredeemed points at the end of the first reporting period.

~~IE295-IE314.~~ ~~IE270~~—At the end of the second reporting period, 8,500 points have been redeemed cumulatively. The entity updates its estimate of the points that will be redeemed and now expects that 9,700 points will be redeemed. The entity ~~recognises~~recognizes revenue for the loyalty points of CU3,493 [(8,500 total points redeemed ÷ 9,700 total points expected to be redeemed) × CU8,676 initial allocation] – CU4,110 ~~recognised~~recognized in the first reporting period). The ~~binding arrangement~~contract liability balance is CU1,073 (CU8,676 initial allocation – CU7,603 of cumulative revenue ~~recognised~~recognized).

**Non-refundable ~~u~~Upfront ~~f~~Fees**

*Illustrating the Consequences of Applying Paragraphs AG95 - AG98 of draft IPSAS [X] (~~ED XX~~).*

~~IE315.~~ The following example illustrate the requirements on non-refundable upfront fees. The example is not based on actual transactions.

*Example 53—Non-refundable ~~u~~Upfront ~~f~~Fee*

~~IE296-IE316.~~ ~~IE272~~—An entity enters into a ~~binding arrangement~~contract with a ~~customer-purchaser~~ for one-year of transaction processing services. The entity's ~~binding arrangements~~contracts have standard terms that are the same for all ~~customers~~purchasers. The ~~binding arrangement~~contract requires the ~~customer-purchaser~~ to pay an upfront fee to set up the ~~customer-purchaser~~ on the entity's systems and processes. The fee is a nominal amount and is non-refundable. The ~~customer-purchaser~~ can renew the ~~binding arrangement~~contract each year without paying an additional fee.

~~IE297-IE317.~~ ~~IE273~~—The entity's setup activities do not transfer a good or service to the ~~customer-purchaser~~ and, therefore, do not give rise to a performance obligation.

~~IE298-IE318.~~ ~~IE274~~—The entity concludes that the renewal option does not provide a material right to the ~~customer-purchaser~~ that it would not receive without entering into that

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~~binding arrangement~~contract (see paragraph AG87B49 of ~~draft~~ IPSAS [X] (ED XX)IFRS 15). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the entity determines the transaction price, which includes the non-refundable upfront fee, and ~~recognises~~recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG96B49 of ~~draft~~ IPSAS [X] (ED XX)IFRS 15.

## Licensing

*Illustrating the Consequences of Applying Paragraphs 23-31, 40-46, 85-87 and AG99-AG112 of ~~draft~~ IPSAS [X] (ED XX).*

IE319. The following examples illustrate the requirements on identifying performance obligations, licensing, measuring progress towards complete satisfaction of a performance obligation, allocating variable consideration to performance obligations and consideration in the form of sales-based or usage-based royalties on licenses of intellectual property. The examples are not based on actual transactions.

*Example 54—Right to use ~~Use~~ Intellectual ~~P~~Property*

IE299-IE320. IE276—Using the same facts as in Case A in Example 11 (see paragraphs IE55, IE49-IE59IE53), the entity identifies four performance obligations in a ~~contract~~binding arrangement:

- (a) ~~(a)~~—~~t~~The software ~~license~~license;
- (b) ~~(b)~~—~~i~~Installation services;
- (c) ~~(c)~~—~~s~~Software updates; and
- (d) ~~(d)~~—~~t~~Technical support.

IE300-IE321. IE277—The entity assesses the nature of its promise to transfer the software ~~license~~license in accordance with paragraph AG104B58 of ~~draft~~ IPSAS [X] (ED XX)IFRS 15. The entity does not consider in its assessment of the criteria in paragraph AG104B58 of ~~draft~~ IPSAS [X] (ED XX)IFRS 15 the promise to provide software updates, because they result in the transfer of an additional good or service to the ~~customer—purchaser~~ (see paragraph AG104(c)B58(e)). The entity also observes that it does not have any ~~contractual or~~ implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the ~~license~~license period. The entity observes that the software remains functional without the updates and the technical support and, therefore, the ability of the ~~customer—purchaser~~ to obtain the benefits ~~or receive service potential~~ of the software is not substantially derived from, or dependent on, the entity's ongoing activities. The entity therefore determines that the ~~contract-binding arrangement~~ does not require, and the ~~customer purchaser~~ does not reasonably expect, the entity to undertake activities that significantly affect the software (independent of the updates and technical support). The entity concludes that the software to which the ~~license~~license relates has significant stand-alone functionality and none of the criteria in paragraph AG104B58 of ~~I of draft~~ IPSAS [X] (ED XX)IFRS 15 are met. The entity further concludes that the nature of the entity's promise in transferring the ~~license~~license is to provide a right to use the entity's intellectual property as it exists at a point in time. Consequently, the entity accounts for the ~~license~~license as a performance obligation satisfied at a point in time.

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*Example 55—License of Intellectual Property*

IE301-IE322. IE278—An entity enters into a contract-binding arrangement with a customer-purchaser to license (for a period of three years) intellectual property related to the design and production processes for a good. The binding arrangement also specifies that the customer-purchaser will obtain any updates to that intellectual property for new designs or production processes that may be developed by the entity. The updates are integral to the customer's-purchaser's ability to derive benefit or receive service potential from the license during the license period, because the intellectual property is used in an industry-sector in which technologies change rapidly.

IE302-IE323. IE279—The entity assesses the goods and services promised to the customer-purchaser to determine which goods and services are distinct in accordance with paragraph 2827 of draft IPSAS [X] (ED XX) IFRS-15. The entity determines that the customer-purchaser can benefit or receive service potential from (a) the license on its own without the updates; and (b) the updates together with the initial license. Although the benefit or service potential the customer-purchaser can derive from the license on its own (ie without the updates) is limited because the updates are integral to the customer-purchaser's ability to continue to use the intellectual property in an industry-sector in which technologies change rapidly, the license can be used in a way that generates some economic benefits or service potential. Therefore, the criterion in paragraph 28(a)27(a) of draft IPSAS [X] (ED XX) IFRS-15 is met for the license and the updates.

IE303-IE324. IE279A—The fact that the benefit or service potential the customer-purchaser can derive from the license on its own (ie without the updates) is limited (because the updates are integral to the customer's-purchaser's ability to continue to use the license in the rapidly changing technological environment) is also considered in assessing whether the criterion in paragraph 28(b)27(b) of draft IPSAS [X] (ED XX) IFRS-15 is met. Because the benefit or service potential that the customer-purchaser could obtain from the license over the three-year term without the updates would be significantly limited, the entity's promises to grant the license and to provide the expected updates are, in effect, inputs that together fulfil a single promise to deliver a combined item to the customer-purchaser. That is, the nature of the entity's promise in the contract-binding arrangement is to provide ongoing access to the entity's intellectual property related to the design and production processes for a good for the three-year term of the contract-binding arrangement. The promises within that combined item (ie to grant the license and to provide when-and-if-available updates) are, therefore, not separately identifiable in accordance with the criterion in paragraph 28(b)27(b) of draft IPSAS [X] (ED XX) IFRS-15.

IE304-IE325. IE280—The nature of the combined good or service that the entity promised to transfer to the customer-purchaser is ongoing access to the entity's intellectual property related to the design and production processes for a good for the three-year term of the contract-binding arrangement. On the basis of this conclusion, the entity applies paragraphs 3234–3938 of draft IPSAS [X] (ED XX) IFRS-15 to determine whether single the performance obligation is satisfied at a point in time or over time. The entity concludes that because the customer-purchaser simultaneously receives and consumes the benefits or service potential of the entity's performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 36(a)35(a) of draft IPSAS [X] (ED XX) IFRS-15.

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*Example 56—Identifying a ~~d~~Distinct ~~lic~~ence~~License~~*

~~IE305-IE326.~~ ~~IE281~~—An entity, a pharmaceutical company, licenses to a ~~customer-purchaser~~ its patent rights to an approved drug compound for 10 years and also promises to manufacture the drug for the ~~customerpurchaser~~. The drug is a mature product; therefore the entity will not undertake any activities to support the drug, which is consistent with its customary ~~business~~-practices.

*Case A—~~LicenseLicense~~ is ~~n~~Not ~~d~~Distinct*

~~IE306-IE327.~~ ~~IE282~~—In this case, no other entity can manufacture this drug because of the highly ~~specialisedspecialized~~ nature of the manufacturing process. As a result, the ~~lic~~ence~~license~~ cannot be purchased separately from the manufacturing services.

~~IE307-IE328.~~ ~~IE283~~—The entity assesses the goods and services promised to the ~~customer-purchaser~~ to determine which goods and services are distinct in accordance with paragraph ~~2827~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~. The entity determines that the ~~customer-purchaser~~ cannot benefit ~~or receive service potential~~ from the ~~lic~~ence~~license~~ without the manufacturing service; therefore, the criterion in paragraph ~~28(a)27(a)~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~ is not met. Consequently, the ~~lic~~ence~~license~~ and the manufacturing service are not distinct and the entity accounts for the ~~lic~~ence~~license~~ and the manufacturing service as a single performance obligation.

~~IE308-IE329.~~ ~~IE284~~—The entity applies paragraphs ~~3234~~–~~3938~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~ to determine whether the performance obligation (ie the bundle of the ~~lic~~ence~~license~~ and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

*Case B—~~LicenseLicense~~ is ~~d~~Distinct*

~~IE309-IE330.~~ ~~IE285~~—In this case, the manufacturing process used to produce the drug is not unique or ~~specialisedspecialized~~ and several other entities can also manufacture the drug for the ~~customerpurchaser~~.

~~IE310-IE331.~~ ~~IE286~~—The entity assesses the goods and services promised to the ~~customer-purchaser~~ to determine which goods and services are distinct, and it concludes that the criteria in paragraph ~~2827~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~ are met for each of the ~~lic~~ence~~license~~ and the manufacturing service. The entity concludes that the criterion in paragraph ~~28(a)27(a)~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~ is met because the ~~customer-purchaser~~ can benefit ~~or receive service potential~~ from the ~~lic~~ence~~license~~ together with readily available resources other than the entity's manufacturing service (because there are other entities that can provide the manufacturing service), and can benefit ~~or receive service potential~~ from the manufacturing service together with the ~~lic~~ence~~license~~ transferred to the ~~customer—purchaser~~ at the start of the ~~contractbinding arrangement~~.

~~IE311-IE332.~~ ~~IE286A~~—The entity also concludes that its promises to grant the ~~lic~~ence~~license~~ and to provide the manufacturing service are separately identifiable (ie the criterion in paragraph ~~28(b)27(b)~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~ is met). The entity concludes that the ~~lic~~ence~~license~~ and the manufacturing service are not inputs to a combined item in this ~~contract binding arrangement~~ on the basis of the principle and the factors in paragraph ~~3029~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~. In reaching this conclusion, the entity considers that ~~the customerthe purchaser~~ could separately purchase the ~~lic~~ence~~license~~ without significantly affecting its ability to benefit ~~or service potential~~ from the ~~lic~~ence~~license~~. Neither the ~~lic~~ence~~license~~, nor the manufacturing service, is significantly modified or ~~customisedcustomized~~ by the other and the entity is not providing a significant service of integrating those items into a combined output. The entity



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further considers that the ~~licensee~~license and the manufacturing service are not highly interdependent or highly interrelated because the entity would be able to fulfil its promise to transfer the ~~licensee~~license independently of fulfilling its promise to subsequently manufacture the drug for the ~~customer~~ purchaser. Similarly, the entity would be able to manufacture the drug for the ~~customer~~ purchaser even if the ~~customer~~ purchaser had previously obtained the ~~licensee~~license and initially ~~utilised~~utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the ~~licensee~~license in this contract (ie the entity would not provide the manufacturing service without the customer having obtained the ~~licensee~~license), the ~~licensee~~license and the manufacturing service do not significantly affect each other. Consequently, the entity concludes that its promises to grant the ~~licensee~~license and to provide the manufacturing service are distinct and that there are two performance obligations:

- (a) ~~(a)~~——~~licensee~~License of patent rights; and
- (b) ~~(b)~~——~~m~~Manufacturing service.

~~IE312-IE333.~~ ~~IE287~~—The entity assesses, in accordance with paragraph ~~AG104B58~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15, the nature of the entity's promise to grant the ~~licensee~~license. The drug is a mature product (ie it has been approved, is currently being manufactured and has been sold ~~commercially~~ at a surplus for the last several years). For these types of mature products, the entity's customary ~~business~~ practices are not to undertake any activities to support the drug. The drug compound has significant stand-alone functionality (ie its ability to produce a drug that treats a disease or condition). Consequently, the ~~customer~~ purchaser obtains a substantial portion of the benefits ~~or~~ service potential of the drug compound from that functionality, rather than from the entity's ongoing activities. The entity concludes that the criteria in paragraph ~~AG104B58~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15 are not met because the ~~contract-binding arrangement~~ does not require, and the ~~customer-binding arrangement~~ does not reasonably expect, the entity to undertake activities that significantly affect the intellectual property to which the ~~customer~~ purchaser has rights. In its assessment of the criteria in paragraph ~~AG104B58~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15, the entity does not take into consideration the separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the entity's promise in transferring the ~~licensee~~license is to provide a right to use the entity's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the customer. Consequently, the entity accounts for the ~~licensee~~license as a performance obligation satisfied at a point in time.

~~IE313-IE334.~~ ~~IE288~~—The entity applies paragraphs ~~32,34–3938~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15 to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

*Example 57—Franchise ~~R~~rights*

~~IE314-IE335.~~ ~~IE289~~—An entity enters into a ~~contract-binding arrangement~~ with a ~~customer~~ purchaser and promises to grant a franchise ~~licensee~~license that provides the ~~customer~~ purchaser with the right to use the entity's trade name and sell the entity's products for 10 years. In addition to the ~~licensee~~license, the entity also promises to provide the equipment necessary to operate a franchise store. In exchange for granting the ~~licensee~~license, the entity receives a sales-based royalty of five per cent of the ~~customer's~~ purchaser's monthly sales. The fixed consideration for the equipment is CU150,000 payable when the equipment is delivered.

*Identifying ~~p~~Performance obligationsObligations*

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~~IE315-IE336.~~ ~~IE290~~—The entity assesses the goods and services promised to the ~~customer-purchaser~~ to determine which goods and services are distinct in accordance with paragraph ~~2827~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~. The entity observes that the entity, as a franchisor, has developed a customary ~~business~~ practice to undertake activities such as ~~analysing~~analyzing consumers' changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies to support the franchise name. However, the entity concludes that these activities do not directly transfer goods or services to the ~~customer purchaser~~ because they are part of the entity's promise to grant a ~~licence~~license.

~~IE316-IE337.~~ ~~IE291~~—The entity determines that it has two promises to transfer goods or services: a promise to grant a ~~licence~~license and a promise to transfer equipment. In addition, the entity concludes that the promise to grant the ~~licence~~license and the promise to transfer the equipment are each distinct. This is because the ~~customer-purchaser~~ can benefit ~~or receive service potential~~ from each good or service (ie the ~~licence~~license and the equipment) on its own or together with other resources that are readily available (see paragraph ~~28(a)27(a)~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~). The ~~customer-purchaser~~ can benefit ~~or receive service potential~~ from the ~~licence~~license together with the equipment that is delivered before the opening of the franchise and the equipment can be used in the franchise or sold for an amount other than scrap value. The entity also determines that the promises to grant the franchise ~~licence~~license and to transfer the equipment are separately identifiable, in accordance with the criterion in paragraph ~~28(b)27(b)~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS ~~45~~. The entity concludes that the ~~licence~~license and the equipment are not inputs to a combined item (ie they are not fulfilling what is, in effect, a single promise to the customer). In reaching this conclusion, the entity considers that it is not providing a significant service of integrating the ~~licence~~license and the equipment into a combined item (ie the licensed intellectual property is not a component of, and does not significantly modify, the equipment). In addition, the ~~licence~~license and the equipment are not highly interdependent or highly interrelated because the entity would be able to fulfil each promise (ie to license the franchise or to transfer the equipment) independently of the other. Consequently, the entity has two performance obligations:

- (a) ~~(a)~~ ~~the~~ franchise licence; and
- (b) ~~(b)~~ ~~the~~ equipment.

Allocating the transaction price

~~IE317-IE338.~~ ~~IE292~~ The entity determines that the transaction price includes fixed consideration of CU150,000 and variable consideration (five per cent of customer sales). The stand-alone selling price of the equipment is CU150,000 and the entity regularly licenses franchises in exchange for five per cent of customer sales.

~~IE318-IE339.~~ ~~IE293~~—The entity applies paragraph 85 of IFRS 15 to determine whether the variable consideration should be allocated entirely to the performance obligation to transfer the franchise ~~licence~~license. The entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the franchise ~~licence~~license because the variable consideration relates entirely to the entity's promise to grant the franchise ~~licence~~license. In addition, the entity observes that allocating CU150,000 to the equipment and the sales-based royalty to the franchise ~~licence~~license would be consistent with an allocation based on the entity's relative stand-alone selling prices in similar contracts. Consequently, the entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the performance obligation to grant the franchise ~~licence~~license.

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~~IE319-IE340.~~ ~~IE294~~—The entity assesses, in accordance with paragraph ~~AG104B58~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15, the nature of the entity's promise to grant the franchise ~~licencelicense~~. The entity concludes that the criteria in paragraph ~~AG104B58~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15 are met and the nature of the entity's promise is to provide access to the entity's intellectual property in its current form throughout the ~~licencelicense~~ period. This is because:

- (a) ~~(a)~~—~~t~~The entity concludes that the ~~customer-purchaser~~ would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property to which the ~~customer-purchaser~~ has rights. The ability of the ~~customer-purchaser~~ to obtain benefit or service potential from the intellectual property to which the ~~customer-purchaser~~ has rights is substantially derived from, or dependent upon, the expected activities of the entity. This is on the basis of the entity's customary ~~business~~-practice to undertake activities such as ~~analysinganalyzing~~ the consumers' changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies. In addition, the entity observes that because part of its compensation is dependent on the success of the franchisee (as evidenced through the sales-based royalty), the entity has a shared economic interest with the ~~customer-purchaser~~ that indicates that the ~~customer purchaser~~ will expect the entity to undertake those activities to ~~maximisemaximize~~ earnings.
- (b) ~~(b)~~—~~t~~The entity also observes that the franchise ~~licencelicense~~ requires the ~~customer purchaser~~ to implement any changes that result from those activities and thus exposes the ~~customer-purchaser~~ to any positive or negative effects of those activities.
- (c) ~~(c)~~—~~t~~The entity also observes that even though the ~~customer-purchaser~~ may benefit or receive service potential from the activities through the rights granted by the ~~licencelicense~~, they do not transfer a good or service to the ~~customer-purchaser~~ as those activities occur.

~~IE320-IE341.~~ ~~IE295~~—Because the criteria in paragraph ~~AG104B58~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15 are met, the entity concludes that the promise to transfer the ~~licencelicense~~ is a performance obligation satisfied over time in accordance with paragraph ~~36(a)35(a)~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15.

~~IE321-IE342.~~ ~~IE296~~—The entity also concludes that because the consideration that is in the form of a sales-based royalty relates specifically to the franchise ~~licencelicense~~ (see paragraph ~~AG111B63A~~), the entity applies paragraph ~~AG110B63~~ of ~~draft~~ IPSAS [X] (ED XX)IFRS 15. After the transfer of the franchise ~~licencelicense~~, the entity ~~recognisesrecognizes~~ revenue as and when the ~~customer's-purchaser's~~ sales occur because the entity concludes that this reasonably depicts the entity's progress towards complete satisfaction of the franchise ~~licencelicense~~ performance obligation.

Example 58—Access to iIntellectual pProperty

~~IE322-IE343.~~ ~~IE297~~—An entity, a creator of comic strips, licenses the use of the images and names of its comic strip characters in three of its comic strips to a ~~customer-purchaser~~ for a four-year term. There are main characters involved in each of the comic strips. However, newly created characters appear regularly and the images of the characters evolve over time. The ~~customerpurchaser~~, an operator of cruise ships, can use the entity's characters in various ways, such as in shows or parades, within reasonable guidelines. The ~~contract-binding arrangement~~ requires the ~~customer purchaser~~ to use the latest images of the characters.

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~~IE323-IE344.~~ ~~IE298~~—In exchange for granting the ~~license~~license, the entity receives a fixed payment of CU1 million in each year of the four-year term.

~~IE324-IE345.~~ ~~IE299~~—In accordance with paragraph ~~28~~<sup>27</sup> of ~~draft~~draft IPSAS [X] (ED XX) ~~IFRS-15~~, the entity assesses the goods and services promised to the ~~customer-purchaser~~ to determine which goods and services are distinct. The entity concludes that it has no other performance obligations other than the promise to grant a ~~license~~license. That is, the additional activities associated with the ~~license~~license do not directly transfer a good or service to the ~~customer-purchaser~~ because they are part of the entity's promise to grant a ~~license~~license.

~~IE325-IE346.~~ ~~IE300~~—The entity assesses the nature of the entity's promise to transfer the ~~license~~license in accordance with paragraph ~~AG104B58~~ of ~~draft~~draft IPSAS [X] (ED XX) ~~IFRS-15~~. In assessing the criteria the entity considers the following:

- (a) ~~(a)~~—~~t~~The ~~customer-purchaser~~ reasonably expects (arising from the entity's customary ~~business~~ practices) that the entity will undertake activities that will significantly affect the intellectual property to which the ~~customer-purchaser~~ has rights (ie the characters). This is because the entity's activities (ie development of the characters) change the form of the intellectual property to which the ~~customer-purchaser~~ has rights. In addition, the ability of the ~~customer-purchaser~~ to obtain benefit ~~or receive service potential~~ from the intellectual property to which the ~~customer-purchaser~~ has rights is substantially derived from, or dependent upon, the entity's ongoing activities (ie the publishing of the comic strip).
- (b) ~~(b)~~—~~t~~The rights granted by the ~~license~~license directly expose the ~~customer-purchaser~~ to any positive or negative effects of the entity's activities because the ~~contract binding arrangement~~ requires the ~~customer-purchaser~~ to use the latest characters.
- (c) ~~(c)~~—~~e~~Even though the ~~customer-purchaser~~ may benefit ~~or receive service potential~~ from those activities through the rights granted by the ~~license~~license, they do not transfer a good or service to the ~~customer-purchaser~~ as those activities occur.

~~IE326-IE347.~~ ~~IE301~~—Consequently, the entity concludes that the criteria in paragraph ~~AG104B58~~ of ~~draft~~draft IPSAS [X] (ED XX) ~~IFRS-15~~ are met and that the nature of the entity's promise to transfer the ~~license~~license is to provide the ~~customer-purchaser~~ with access to the entity's intellectual property as it exists throughout the ~~license~~license period. Consequently, the entity accounts for the promised ~~license~~license as a performance obligation satisfied over time (ie the criterion in paragraph ~~36(a)~~<sup>35(a)</sup> of ~~draft~~draft IPSAS [X] (ED XX) ~~IFRS-15~~ is met).

~~IE327-IE348.~~ ~~IE302~~—The entity applies paragraphs ~~40~~<sup>39</sup>–~~46~~<sup>45</sup> of ~~draft~~draft IPSAS [X] (ED XX) ~~IFRS-15~~ to identify the method that best depicts its performance in the ~~license~~license. Because the ~~contract binding arrangement~~ provides the ~~customer-purchaser~~ with unlimited use of the licensed characters for a fixed term, the entity determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

*Example 59—Right to use ~~i~~Intellectual ~~p~~Property*

~~IE328-IE349.~~ ~~IE303~~—An entity, a music record label, licenses to a ~~customer-purchaser~~ a 1975 recording of a classical symphony by a noted orchestra. The ~~customer-purchaser~~, a consumer products company, has the right to use the recorded symphony in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the ~~license~~license, the entity receives fixed consideration of CU10,000 per month. The ~~contract-binding arrangement~~

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does not include any other goods or services to be provided by the entity. The binding arrangement contract is non-cancellable.

~~IE329-IE350.~~ ~~IE304~~—The entity assesses the goods and services promised to the customer-purchaser to determine which goods and services are distinct in accordance with paragraph ~~2827~~ of draft IPSAS [X] (ED XX) ~~IFRS 15~~. The entity concludes that its only performance obligation is to grant the license. The entity determines that the term of the license (two years), its geographical scope (the customer's-purchaser's right to use the recording only in Country A), and the defined permitted use for the recording (in commercials) are all attributes of the promised license in the contract-binding arrangement.

~~IE330-IE351.~~ ~~IE305~~—In accordance with paragraph ~~AG104B58~~ of draft IPSAS [X] (ED XX) ~~IFRS 15~~, the entity assesses the nature of the entity's promise to grant the license. The entity does not have any **contractual or implied** obligations to change the licensed recording. The licensed recording has significant stand-alone functionality (ie the ability to be played) and, therefore, the ability of the customer-purchaser to obtain the benefits or service potential of the recording is not substantially derived from the entity's ongoing activities. The entity therefore determines that the contract-binding arrangement does not require, and the customer-purchaser does not reasonably expect, the entity to undertake activities that significantly affect the licensed recording (ie the criterion in paragraph ~~AG104(a)B58(a)~~ is not met). Consequently, the entity concludes that the nature of its promise in transferring the license is to provide the customer-purchaser with a right to use the entity's intellectual property as it exists at the point in time that it is granted. Therefore, the promise to grant the license is a performance obligation satisfied at a point in time. The entity ~~recognises~~ recognizes all of the revenue at the point in time when the customer-purchaser can direct the use of, and obtain substantially all of the remaining benefits or service potential from, the licensed intellectual property.

~~IE331-IE352.~~ ~~IE306~~—Because of the length of time between the entity's performance (at the beginning of the period) and the customer-purchaser's monthly payments over two ~~years~~ (which are non-cancellable), the entity considers the requirements in paragraphs ~~61\_60\_6665~~ of draft IPSAS [X] (ED XX) ~~IFRS 15~~ to determine whether a significant financing component exists.

*Example 60—Sales-based Royalty for a License of intellectual-intellectual property Property*

~~IE332-IE353.~~ ~~IE307~~—An entity, a movie distribution company, licenses Movie XYZ to a customer-purchaser. The purchaser-customer, an operator of cinemas, has the right to show the movie in its cinemas for six weeks. Additionally, the entity has agreed to (a) provide memorabilia from the filming to the purchaser-customer for display at the purchaser-customer's cinemas before the beginning of the six-week screening period; and (b) sponsor radio advertisements for Movie XYZ on popular radio stations in the purchaser-customer's geographical area throughout the six-week screening period. In exchange for providing the license and the additional promotional goods and services, the entity will receive a portion of the operator's ticket sales for Movie XYZ (ie variable consideration in the form of a sales-based royalty).

~~IE333-IE354.~~ ~~IE308~~—The entity concludes that the license to show Movie XYZ is the predominant item to which the sales-based royalty relates because the entity has a reasonable expectation that the purchaser-customer would ascribe significantly more value to the license than to the related promotional goods or services. The entity ~~recognises~~ recognizes revenue from the sales-based royalty, the only consideration to which the entity is entitled under the contract-binding arrangement, wholly in accordance with paragraph ~~AG110B63~~. If the

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licencelicense, the memorabilia and the advertising activities are separate performance obligations, the entity would allocate the sales-based royalty to each performance obligation.

*Example 61—Access to intellectual property*

~~IE334-IE355.~~ ~~IE309~~—An entity, a well-known sports team, licenses the use of its name and logo to a customerpurchaser. The purchasercustomer, an apparel designer, has the right to use the sports team's name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the licencelicense, the entity will receive fixed consideration of CU2-million and a royalty of five-per-cent of the sales price of any items using the team name or logo. The purchasercustomer expects that the entity will continue to play games and provide a competitive team.

~~IE335-IE356.~~ ~~IE310~~—The entity assesses the goods and services promised to the purchasercustomer to determine which goods and services are distinct in accordance with paragraph-2827 of draft IPSAS [X] (ED XX)IFRS-45. The entity concludes that its only performance obligation is to transfer the licencelicense. The additional activities associated with the licencelicense (ie continuing to play games and provide a competitive team) do not directly transfer a good or service to the customer because they are part of the entity's promise to grant the licencelicense.

~~IE336-IE357.~~ ~~IE311~~—The entity assesses the nature of the entity's promise to transfer the licencelicense in accordance with paragraph-AG104B58 of draft IPSAS [X] (ED XX)IFRS-45. In assessing the criteria the entity considers the following:

- (a) ~~(a)~~—The entity concludes that the customer-purchaser would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property (ie the team name and logo) to which the customer-purchaser has rights. This is on the basis of the entity's customary business-practice to undertake activities that support and maintain the value of the name and logo such as continuing to play and providing a competitive team. The entity determines that the ability of the customer-purchaser to obtain benefit or service potential from the name and logo is substantially derived from, or dependent upon, the expected activities of the entity. In addition, the entity observes that because some of its consideration is dependent on the success of the customer-purchaser (through the sales-based royalty), the entity has a shared economic interest with the customerpurchaser, which indicates that the customer-purchaser will expect the entity to undertake those activities to maximisemaximize earnings.
- (b) ~~(b)~~—The entity observes that the rights granted by the licencelicense (ie the use of the team's name and logo) directly expose the customer-purchaser to any positive or negative effects of the entity's activities.
- (c) ~~(c)~~—The entity also observes that even though the customer-purchaser may benefit or receive service potential from the activities through the rights granted by the licencelicense, they do not transfer a good or service to the customer as those activities occur.

~~IE337-IE358.~~ ~~IE312~~—The entity concludes that the criteria in paragraph-AG104B58 of draft IPSAS [X] (ED XX)IFRS-45 are met and the nature of the entity's promise to grant the licencelicense is to provide the customer-purchaser with access to the entity's intellectual property as it exists throughout the licencelicense period. Consequently, the entity accounts for the promised licencelicense as a performance obligation satisfied over time (ie the criterion in paragraph-36(a)35(a) of draft IPSAS [X] (ED XX)IFRS-45 is met).

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~~IE338-IE359.~~ ~~IE313~~—The entity then applies paragraphs ~~4039~~–~~4645~~ of ~~draft~~ IPSAS [X] (ED XX) ~~IFRS 45~~ to determine a measure of progress that will depict the entity's performance. For the consideration that is in the form of a sales-based royalty, paragraph ~~AG110B63~~ of ~~draft~~ IPSAS [X] (ED XX) ~~IFRS 45~~ applies because the sales-based royalty relates solely to the ~~license~~ license, which is the only performance obligation in the ~~contract~~ binding arrangement. The entity concludes that recognition of the CU2-million fixed consideration as revenue rateably over time plus recognition of the royalty as revenue as and when the ~~customer's-purchaser's~~ sales of items using the team name or logo occur reasonably depicts the entity's progress towards complete satisfaction of the ~~license~~ license performance obligation.

### Repurchase ~~a~~Agreements

*Illustrating the Consequences of Applying Paragraphs AG113–AG125 of ~~draft~~ IPSAS [X] (ED XX).*

~~IE360.~~ The following example illustrate the requirements on repurchase agreements. The example is not based on actual transactions.

#### Example 62—Repurchase ~~a~~Agreements

~~IE339-IE361.~~ ~~IE315~~—An entity enters into a contract-binding arrangement with a customer-purchaser for the sale of a tangible asset on 4-January-1, 20X7 for CU1-million.

#### Case A—Call ~~e~~Option: Financing

~~IE340-IE362.~~ ~~IE316~~—The ~~binding arrangement~~ contract includes a call option that gives the entity the right to repurchase the asset for CU1.1-million on or before ~~31~~ December ~~31~~, 20X7.

~~IE341-IE363.~~ ~~IE317~~—Control of the asset does not transfer to the ~~customer-purchaser~~ on 4-January 1, 20X7 because the entity has a right to repurchase the asset and therefore the customer-purchaser is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Consequently, in accordance with paragraph ~~AG115(b)B66(b)~~ of ~~draft~~ IPSAS [X] (ED XX) ~~IFRS 45~~, the entity accounts for the transaction as a financing arrangement, because the exercise price is more than the original selling price. In accordance with paragraph ~~AG117B68~~ of ~~draft~~ IPSAS [X] (ED XX) ~~IFRS 45~~, the entity does not ~~derecognise~~ derecognize the asset and instead ~~recognises~~ recognizes the cash received as a financial liability. The entity also ~~recognises~~ recognizes interest expense for the difference between the exercise price (CU1.1-million) and the cash received (CU1-million), which increases the liability.

~~IE342-IE364.~~ ~~IE318~~—On ~~31~~ December ~~31~~, 20X7, the option lapses unexercised; therefore, the entity ~~derecognises~~ derecognizes the liability and ~~recognises~~ recognizes revenue of CU1.1-million.

#### Case B—Put ~~e~~Option: Lease/Lease

~~IE343-IE365.~~ ~~IE319~~—Instead of having a call option, the ~~binding arrangement~~ contract includes a put option that obliges the entity to repurchase the asset at the customer-purchaser's request for CU900,000 on or before ~~31~~ December ~~31~~, 20X7. The market value is expected to be CU750,000 on ~~31~~ December ~~31~~, 20X7.

~~IE344-IE366.~~ ~~IE320~~—At the inception of the binding arrangement contract, the entity assesses whether the customer-purchaser has a significant economic incentive to exercise the put option, to determine the accounting for the transfer of the asset (see paragraphs ~~AG119B70~~–~~AG125B76~~ of ~~draft~~ IPSAS [X] (ED XX) ~~IFRS 45~~). The entity concludes that the customer-purchaser has a



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significant economic incentive to exercise the put option because the repurchase price significantly exceeds the expected market value of the asset at the date of repurchase. The entity determines there are no other relevant factors to consider when assessing whether the [customerpurchaser](#) has a significant economic incentive to exercise the put option. Consequently, the entity concludes that control of the asset does not transfer to the [customerpurchaser](#), because the [customer-purchaser](#) is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits [or service potential](#) from, the asset.

~~IE345-IE367.~~ ~~IE321~~—In accordance with paragraphs AG119 ~~B70~~–AG120 ~~B74~~ of [draft\] IPSAS \[X\] \(ED XX\)\]IFRS 15](#), the entity accounts for the transaction as a lease in accordance with [IFRS 16\]IPSAS 13](#).–Leases.

#### **Bill-and-Hold Arrangements**

*Illustrating the Consequences of Applying Paragraphs AG128 – AG131 of [draft\] IPSAS \[X\] \(ED XX\)](#).*

~~IE368.~~ The following example illustrate the requirements on bill-and-hold arrangements. The example is not based on actual transactions.

*Example 63—Bill-and-h~~h~~old arrangementArrangement*

~~IE346-IE369.~~ ~~IE323~~—An entity enters into a [contract-binding arrangement](#) with a [customer-purchaser](#) on 1-January 1-, 20X8 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is two-years.

~~IE347-IE370.~~ ~~IE324~~—Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the [contract-binding arrangement](#). The promises to transfer the machine and spare parts are distinct and result in two performance obligations that each will be satisfied at a point in time. On 34-December 31-, 20X9, the [customer-purchaser](#) pays for the machine and spare parts, but only takes physical possession of the machine. Although the [customer-purchaser](#) inspects and accepts the spare parts, the [customer-purchaser](#) requests that the spare parts be stored at the entity's warehouse because of its close proximity to the [customer's purchaser's](#) factory. The [customer-purchaser](#) has legal title to the spare parts and the parts can be identified as belonging to the [customerpurchaser](#). Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the [customer's-purchaser's](#) request. The entity expects to hold the spare parts for two to four-years and the entity does not have the ability to use the spare parts or direct them to another [customerpurchaser](#).

~~IE348-IE371.~~ ~~IE325~~—The entity identifies the promise to provide custodial services as a performance obligation because it is a service provided to the [customer-purchaser](#) and it is distinct from the machine and spare parts. Consequently, the entity accounts for three performance obligations in the [contract-binding arrangement](#) (the promises to provide the machine, the spare parts and the custodial services). The transaction price is allocated to the three performance obligations and revenue is [recognisedrecognized](#) when (or as) control transfers to the [customerpurchaser](#).

~~IE349-IE372.~~ ~~IE326~~—Control of the machine transfers to the [customer-purchaser](#) on 34-December 31-, 20X9 when the [customer-purchaser](#) takes physical possession. The entity assesses the indicators in paragraph 3938 of [draft\] IPSAS \[X\] \(ED XX\)\]IFRS 15](#) to determine the point in time at which control of the spare parts transfers to the [customerpurchaser](#), noting that the entity has received payment, the [customer-purchaser](#) has legal title to the spare parts and the [customer](#)



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purchaser has inspected and accepted the spare parts. In addition, the entity concludes that all of the criteria in paragraph ~~AG130B84~~ of draft] IPSAS [X] (ED XX)]FRS-45 are met, which is necessary for the entity to ~~recognise~~recognize revenue in a bill-and-hold arrangement. The entity ~~recognises~~recognizes revenue for the spare parts on ~~31~~ December 31, 20X9 when control transfers to the ~~customer~~purchaser.

~~IE350-IE373.~~ IE327—The performance obligation to provide custodial services is satisfied over time as the services are provided. The entity considers whether the payment terms include a significant financing component in accordance with paragraphs ~~6160~~—~~6665~~ of draft] IPSAS [X] (ED XX)]FRS 45.

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