

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 18–22, 2019

From: Amon Dhiwayo

Agenda Item 10

For:

☐ Approval

☒ Discussion

☒ Information

REVENUE

Project summary	Revenue <p>The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS.</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9, <i>Revenue from Exchange Transactions</i>, IPSAS 11, <i>Construction Contracts</i> and IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>.</p>	
Meeting objectives	Topic	Agenda Item
Project management	Revenue Project Roadmap	10.1.1
	Decisions up to March 2019	10.1.2
	Instructions up to March 2019 Meeting	10.1.3
Decisions required at this meeting	Objective	10.2.1
	Identifying the Binding Arrangement with a Purchaser - Consequences of paragraph 8(e).	10.2.2
	Binding Arrangement Asset and Binding Arrangement Liability	10.2.3
	Terminology Additions and Changes	10.2.4
	Illustrative Examples for [draft] ED 70, <i>Revenue with Performance Obligations</i>	10.2.5
Other supporting items	[draft] Exposure Draft (ED) 70, <i>Revenue with Performance Obligations</i>	10.3

REVENUE PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
	ED 70, <i>Revenue with Performance Obligations</i> (IFRS 15 Alignment & PSPOA for Revenue)
June 2019	1. Exposure Draft
September 2019	1. Approve ED
December 2019	
March 2020	
June 2020	1. Review Responses
September 2020	1. Discuss Issues
December 2020	1. Discuss Issues 2. Develop IPSAS
H1 2021	1. Approve IPSAS

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10.1.2

DECISIONS UP TO MARCH 2019 MEETING

Date of Decision	Decision
March 2019	After a page-by-page review, the IPSASB gave preliminary approval for the core text and authoritative guidance of the draft Exposure Draft (ED), subject to further review by the Task Force and the Technical Director prior to the June 2019 meeting, and any further changes identified as necessary during development of the examples.
March 2019	The Board decided to change the title of the ED 70, <i>Revenue from Binding Arrangements with Purchasers</i> and adopt the working title, <i>Revenue from Performance Obligations</i> .
March 2019	The Board decided to amend the objective of the ED 70 to clarify that the objective of ED 70 applies to binding arrangements with purchasers that include performance obligations.
March 2019	The Board replaced the example of non-monetary exchanges between entities in the same line of business to facilitate sales to potential customers of oil and milk with electricity, because it is more suitable to the public sector.
March 2019	The Board decided to add revenue transactions without performance obligations that are in the scope of IPSAS 23, <i>Revenue from Non-exchange transactions (Taxes and Transfers)</i> and transactions in the scope of IPSAS 40, <i>Public Sector Combinations</i> as additional scope exclusions in the ED 70.
March 2019	The Board decided to retain the definition of the term, "revenue" in IPSAS 1, <i>Presentation of Financial Statements</i> in the ED 70.
March 2019	The Board decided to retain the definition of the term, "customer" in the ED 70.
March 2019	The Board decided to modify the definition of purchaser in the ED 70 so that it mirrors the definition in the Grants and Transfers – Expense Project.
March 2019	The Board decided to retain the term, "customary business practices" with the term, "entity's customary practices".
March 2019	The Board decided to replace the term, "industry" with the term, "sector".
March 2019	The Board decided to replace the term, "commercial objective" with the term, "objective" rather than "economic objective" because "economic objective", could have a different connotation for the public sector; and
March 2019	The Board decided to amend certain paragraphs in ED 70 that are based on the latest guidance on leases in IFRS 16, <i>Leases</i> to align ED 70 to requirements on leases in IPSAS 13, <i>Leases</i> .
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.

Date of Decision	Decision
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 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> .
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 to progress with a convergence project on IFRS 15, <i>Revenue from Contracts with Customers</i> .
June 2017	All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .

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10.1.3

INSTRUCTIONS UP TO MARCH 2019 MEETING

Meeting	Instruction	Actioned
March 2019	The Board instructed staff to make editorial changes to ED 70 to reflect comments received during the meeting, and the subsequent review by the Task Force and Technical Director and provide a marked-up ED 70 with all the changes from the March 2019 version at the June 2019 Board meeting.	Agenda Item 10.2.4 and Agenda Item 10.3, ED 70, Revenue with Performance Obligations.
March 2019	The Board instructed staff to assess the illustrative examples in IFRS 15 to identify the examples that are applicable to the public sector and should be considered through IPSASB's 'Rules of the Road' process.	Agenda Item 10.2.5
March 2019	The Board instructed staff to consider what additional public sector specific examples should be included to illustrate the application of the key principles in the public sector context.	Agenda Item 10.2.5
March 2019	The Board instructed staff to provide a resulting list of proposed illustrative examples to include in ED 70 for approval at the June 2019 Board meeting.	Agenda Item 10.2.5
March 2019	The Board instructed staff to consider the suitability of the disclosure requirements in ED 70 for the public sector at the September 2019 Board meeting, alongside those proposed for the updated IPSAS 23 and the <i>Grants and Transfers – Expense</i> ED.	To be addressed in September 2019.
March 2019	The Board instructed staff to rephrase the specific exclusion of transfers of non-financial assets that are not an output of an entity's activities and within the scope of IPSAS 16, <i>Investment Property</i> , IPSAS 17, <i>Property, Plant, and Equipment</i> and IPSAS 31, <i>Intangible Assets</i> to disposals of non-financial assets.	Agenda Item 10.3, ED 70, Revenue with Performance Obligations.
March 2019	The Board instructed staff to add explanatory text in the Basis for Conclusions that the definition of revenue is in IPSAS 1 instead of <i>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> .	Agenda Item 10.3, ED 70, Revenue with Performance Obligations.
March 2019	The Board instructed staff to consider whether the definitions of "binding arrangement asset" and "binding arrangement liability" should be removed from ED 70.	Agenda Item 10.2.3
March 2019	The Board instructed staff to consider whether the criterion in paragraph 8(e) that forms part of <i>Step 1: Identifying the binding arrangement with a purchaser</i> precludes certain binding arrangements where the collectability of the consideration is not probable.	Agenda Item 10.2.2

Meeting	Instruction	Actioned
March 2019	The Board instructed staff to relocate the contents of the sub-heading, "Meeting the Objective" to the Basis for Conclusions.	Agenda Item 10.2.1
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> .	
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).	
December 2018	The Board instructed staff to provide a definition of the term, "Purchaser", which incorporates the term, "Customer" as defined in IFRS 15.	
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".	
December 2018	The Board instructed staff to consider the definition of binding arrangements in the draft Standard.	
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).	
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.	
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.	

Meeting	Instruction	Actioned
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.	
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.	
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.	
June 2018	The Board instructed staff to check the consistency of the use of the terms "Binding Arrangement or Other Binding Arrangements".	

Meeting	Instruction	Actioned
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.	
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.	
June 2018	The Board instructed staff to simplify the draft guidance provided by referring to tax and other compulsory levies.	

Revenue (Instructions up to March 2019 meeting)
IPSASB Meeting (June 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 Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .	

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10.2.1

Objective

Questions – [draft] Exposure Draft (ED) 70, *Revenue with Performance Obligations*

1. Whether the IPSASB agrees with the objective section of [draft] ED 70, *Revenue with Performance Obligations*.

Background

2. In March 2019, the IPSASB decided to amend the objective section of [draft] ED 70 by removing the “Meeting the Objective” subheading and relocated some paragraphs in the section to the Application Guidance or Basis for Conclusions.

Detail

3. The objective establishes principles that an entity applies to account for revenue transactions. The objective in [draft] ED 70 is not aligned to IFRS 15, *Revenue from Contracts with Customers*.
4. The objective section in other IPSAS is usually not aligned to IFRS and follows a format prescribed by the IPSASB.
5. The Task Force recommended that the objective of [draft] ED 70 include the five-step revenue recognition model¹ that explains how to apply the principles of the Standard, and excludes the subheading, “Meeting the Objective”. Paragraphs 2, 4 and 5 are relocated to the Application Guidance because the paragraphs reflect additional guidance.
6. The format of the objective section recommended by the Task Force is shown in [Appendix A](#).

Decisions required

7. Does the IPSASB agree with the Task Force recommendation?

¹ The IPSASB included the five-step revenue recognition model in the objective section of [draft] ED 70 to explain the core principle. The IASB only mentioned the five-step recognition model in the Basis for Conclusions of IFRS 15.

Appendix A

Agenda Item

10.2.1

Format of the Objective section recommended by the Task Force

New text is underlined and deleted text is struck through.

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 arrangements with a ~~customer~~ purchaser that include performance obligations to transfer promised goods or services to the purchaser or third-party beneficiary.

Meeting the Objective

2. ~~To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize~~ establishes principles and requirements for how an entity:
 - (a) ~~Recognizes~~ revenue to depict the transfer of promised goods or services to ~~customers~~ purchasers or third-party beneficiaries in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services;
 - (b) ~~Presents information about revenue and cash flows in the financial statements; and~~
 - (c) ~~Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of revenue and cash flows arising from binding arrangements.~~
2. This [draft] Standard requires a reporting entity to recognize revenue by applying the following steps:
 - (a) Step 1: Identifying the binding arrangement with a purchaser (see paragraphs 8-20);
 - (b) Step 2: Identifying the performance obligations in the binding arrangement (see paragraphs 21-29);
 - (c) Step 3: Determining the transaction price (see paragraphs 45-71);
 - (d) Step 4: Allocating the transaction price to the performance obligations in the binding arrangement (see paragraphs 45 and 72-85); and
 - (e) Step 5: Recognizing revenue when (or as) the entity satisfies a performance obligation (see paragraphs 30-44).
3. ~~An entity shall consider the terms of the binding arrangement and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to binding arrangements with similar characteristics and in similar circumstances.~~
4. ~~This [draft] Standard specifies the accounting for an individual binding arrangement with a purchaser that includes performance obligations. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of binding arrangements (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements~~

~~of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual binding arrangements (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.~~

Agenda Item 10.2.2

Identifying the Binding Arrangement with a Purchaser - Consequences of paragraph 8(e).

Questions – [draft] ED 70, *Revenue with Performance Obligations*

1. Whether the IPSASB agrees with the Task Force recommendation to retain paragraph 8(e) but required note disclosures when an entity is compelled to provide goods or services to citizens and the collection of 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 [draft] ED 70, *Revenue with Performance Obligations*. The criteria were retained to align with revenue recognition requirements in IFRS 15².
3. At its March 2019 meeting, the IPSASB directed the Task Force to consider whether paragraph 8(e) should be retained, removed or modified to address situations where an entity is compelled to provide goods or services to citizens and the collection of consideration is not probable.

Detail – Task Force Analysis

Understanding the Issue

4. Paragraph 8(e) requires that collection of the consideration must be probable before an entity can recognize revenue in accordance with the standard.
5. In certain jurisdictions, some entities may be compelled by the legislation to provide certain goods and services (such as water and electricity) to all citizens, regardless of whether the citizen (purchaser) has the ability or intent to pay for those goods or services. Therefore, the collection of consideration related to these good or services is not probable.
6. Application of paragraph 8(e) without modification could result in revenue recognition on a cash basis for compelled transactions that fail the probability test, as required by paragraphs 13 to 15 of [draft] ED 70.

Task Force Considerations

7. Three approaches were discussed by the Task Force:
 - (a) Depart from IFRS 15 by removing the requirement of paragraph 8(e);
 - (b) Retain paragraph 8(e) with amendments (Ring-fencing); or

² Paragraph 8(a)-8(e) of [draft] ED 70, *Revenue with Performance Obligation* 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 economic substance; and
- e. It is probable that the entity will collect the consideration to which it will be entitled.

- (c) Retain paragraph 8(e) and require supplemental disclosures for the compelled transactions.
8. The Task Force did not support the approach to remove the requirement of paragraph 8(e) because consideration whose collection was not probable did not meet the definitions of revenue in both paragraph 7 of [draft] ED 70 or paragraph 5.29 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework).
 9. The Task Force considered retaining paragraph 8(e) with amendments to exclude compelled transactions from the collectability criterion in paragraph 8(e).
 10. The Task Force did not support this approach because it would also result in entities recognizing revenue that did not meet the definition of revenue.
 11. The Task Force decided to retain paragraph 8(e) but to add a disclosure requirement for entities that are compelled to provide goods and services when collectability of consideration was not probable. This disclosure would allow these entities to provide information on the 'billed consideration', the amount not collectible and the amount actually collected. This would ensure that there would be no information loss.

Task Force Recommendation

12. The Task Force recommends the IPSASB retain paragraph 8(e) and require extra disclosure for entities compelled to provide goods and service where collection of consideration is not probable because:
 - (a) Transactions where the probability of collection of consideration is in question do not meet the definition of revenue; and
 - (b) The disclosure will prevent any information loss.
13. The Revenue Task Force has liaised with the Financial Instruments (FI) Task Force to determine whether the recommendation made conflicted with the practical expediency made in IPSAS 41, *Financial Instruments* for gross presentation of purchased or originated credit impaired short-term receivables. The FI Task Force consider that the recommendation made by the Revenue Task Force is not in conflict with IPSAS 41.
14. Staff will draft the disclosure requirement for the IPSASB's review at the September 2019 meeting.

Decisions required

15. Does the IPSASB agree with the Task Force recommendation?

Agenda Item

10.2.3

Binding Arrangement Asset and Binding Arrangement Liability

Questions – [draft] ED 70, *Revenue with Performance Obligations*

1. Whether the IPSASB agrees to remove the definitions of “binding arrangement asset” and “binding arrangement liability” in [draft] ED 70, *Revenue with Performance Obligations*.

Background

2. At its March 2019 meeting, the IPSASB questioned the need for the definitions of “binding arrangement asset” and “binding arrangement liability” in [draft] ED 70 since the terms, “asset” and “liability” are defined elsewhere in the IPSASB’s literature.

Task Force Analysis

3. The definitions of “binding arrangement asset” and “binding arrangement liability” are drawn from the definitions of “contract asset” and “contract liability” in IFRS 15, *Revenue from Contracts with Customers*.
4. The Task Force retained the definitions of “binding arrangement asset” and “binding arrangement liability” in [draft] ED 70:
 - (a) To align with IFRS 15 which labelled the assets and liabilities that arise from contracts with customers as “contract asset” and “contract liability” respectively;
 - (b) To specify that the definition of “binding arrangement liability” is an obligation to transfer goods or services to a purchaser or third-party beneficiary (rather than transfer of cash or other financial instruments);
 - (c) To specify the definition of “binding arrangement asset” as the right to consideration from the purchaser in exchange for goods and services transferred by the entity; and
 - (d) To distinguish between a “binding arrangement asset” within the scope of [draft] ED 70 and a “receivable,” which is an unconditional right to receive consideration, within the scope of IPSAS 41, *Financial Instruments*.
5. The distinction between a “binding arrangement asset” and a “receivable” provides users of financial statements with relevant information about the performance risk and credit risk and associated with the entity’s rights in a binding arrangement³.
6. An example that illustrates the definition of “binding arrangement asset” and “binding arrangement liability” and the distinction between a “binding arrangement asset” and “receivable” is shown in [Appendix B](#).

Decisions required

7. Does the IPSASB agree with the Task Force recommendation?

³ In many cases, a “binding arrangement asset” is a “receivable”, because it is an unconditional right to a consideration. However, in other cases, an entity may satisfy a performance obligation but does not have an unconditional right to the consideration, because it first needs to satisfy another performance obligation in the binding arrangement.

Appendix B

Agenda Item

10.2.3

Illustrative Example for Binding Arrangement Assets and Receivable

Fact Pattern

On January 1, 20X9, an entity enters into a binding arrangement with a purchaser to transfer Product A for CU400 and Product B for CU600. Product A will be delivered first and payment for the delivery of Product A is conditional on the delivery of Product B. The total consideration of CU1,000 is due after both Products A and B are delivered.

The following journal entries illustrate how the entity accounts for the binding arrangement.

Journal to recognize satisfaction of performance obligation to transfer Product A

Debit Binding Arrangement Asset	CU400
Credit Revenue	CU400

Journal to recognize satisfaction of performance obligation to transfer Product B and unconditional right to consideration

Debit Receivable	CU1,000
Credit Binding Arrangement Asset	CU400
Credit Revenue	CU600

Terminology Additions and Changes

Questions – [draft] ED 70 *Revenue with Performance Obligations*

- Whether the IPSASB agrees with the adding the term “third-party beneficiary” to purchaser and the definition of “third-party beneficiary”.
- Whether the IPSASB agrees with the other terminology changes.

Background

- In March 2019, the IPSASB gave preliminary approval for the core text and authoritative guidance of [draft] ED 70, *Revenue with Performance Obligations*, subject to further review by the Task Force and the Technical Director prior to the June 2019 meeting.

Detail

Third-party Beneficiary

- The Task Force reviewed [draft] ED 70 and instructed staff to add the term “third-party beneficiary” following the term, “purchaser” when referring to the transfer of promised goods or services to a “purchaser” to include three-party arrangements that are prevalent in the public sector.
- Staff proposed the following definition of “third party beneficiary” that is also consistent with [draft] ED 71, *Revenue without Performance Obligations* and [draft] ED 72 *Grants and Transfers; Expense*.

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

Transaction Price and Counterparty

- The Task Force considered replacing the term ‘Transaction Price’ with ‘Consideration’ to reflect the public sector context. The Task Force retained the term “Transaction price” as it deals with price of an item whereas “Consideration” represents a total value of payment.
- The Task Force queried whether it was necessary to define ‘counterparty’ or to use another term. Staff reviewed the suite of IPSAS and noted that ‘counterparty’ is used extensively therefore decided that defining or changing ‘counterparty’ was not necessary.

Other Terminology Changes

- The Task Force reviewed [draft] ED 70 and proposed the following terminology changes:

Preliminary Approved ED	Proposed Terminology Changes
Distinct goods or services.	The Task Force proposed to replace the term “Distinct” goods or services used in conjunction with goods and services with the term “ <u>Separately identifiable</u> ”.

Preliminary Approved ED	Proposed Terminology Changes
Distinct goods or services used in relation to promises within a performance obligation.	The Task Force proposed to replace the term “Distinct” goods or services used in relation to promises within a performance obligation with the term “ <u>Sufficiently specific</u> ”.
Stand-alone selling price.	The Task Force proposed to replace the term “Stand-alone selling price” with the term “ <u>Stand-alone price</u> ” because the word “selling” is unlikely to relate to a lot of the transactions that will be accounted in [draft] ED 70.
Sell and Sold	The Task Force proposed to replace all the references to “sell or sold” with the term “ <u>Provide</u> ” and “ <u>Provided</u> ” respectively.

Decisions required

9. Does the IPSASB:
 - (a) Agree with the adding the term “third-party beneficiary” following the term “purchaser” where appropriate as recommended by the Task Force?
 - (b) Agree with the proposed definition of “third-party beneficiary”?
 - (c) Agree with retaining the term, “Transaction Price”?
 - (d) Agree that it is not necessary to define the term, “counterparty”?
 - (e) Agree with the other terminology changes recommended by the Task Force?

Agenda Item 10.2.5

Illustrative Examples for [draft] ED 70, *Revenue with Performance Obligations*

Question

1. Whether the IPSASB agrees with the Task Force's recommendation on the illustrative examples to be included in [draft] ED 70, *Revenue with Performance Obligations* (ED 70).

Detail

2. At the March 2019 meeting, the IPSASB instructed staff to:
 - (a) Assess the illustrative examples in IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), and identify the examples that are applicable to the public sector;
 - (b) Provide additional public sector specific examples that are not included in IFRS 15; and
 - (c) Present the listing of the proposed illustrative examples to be included in ED 70 at the June 2019 Board meeting.
3. Staff determined that this issue required considerable judgement and included the Task Force in developing a listing of illustrative examples for consideration by the IPSASB.

Task Force Analysis

4. The staff and the Task Force reviewed the illustrative examples from IFRS 15 and classified the potential illustrative examples into the following categories:
 - **Retain:** Examples from IFRS 15 which should be retained with no substantive changes (other than changes to terminology to align with the public sector) as the fact patterns are applicable to the public sector;
 - **Modify:** Examples from IFRS 15 which require changes to the fact pattern to be more relevant for the public sector; and
 - **Remove:** Examples from IFRS 15 which have limited applicability to the public sector. The Task Force and staff recommend removing these examples from ED 70.

The above analysis is summarized in [Appendix A](#).

5. In addition, the Task Force and staff recommend the addition of examples which illustrate concepts which have been added to ED 70 or concepts which have been substantively modified from IFRS 15 (e.g., enforceability, identification of binding arrangements and three-party arrangements). This analysis is summarized in [Appendix B](#).
6. The staff also reviewed the paragraphs in the core text of IFRS 15 and ED 70 which currently do not have an example to assess whether additional examples should be provided. The task Force agreed that no additional examples are required for these paragraphs, as their underlying concepts are already illustrated by existing examples.

Decision Required

7. Does the IPSASB agree with the Task Force's recommendations?

Appendix A – Analysis of Examples from IFRS 15:

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Identifying the Binding Arrangement			
Example 1— Collectability of the consideration	IE1-IE7	Modify	The current example refers to a real estate developer. Staff propose to change the entity to a municipality or hospital and to expand the example to illustrate certain binding arrangements where the collection of consideration is not probable, but the entity is compelled to provide the goods and services. The Task Force decided to revisit this example once there is direction on the treatment of binding arrangements where the collection of consideration is not probable. (See Agenda paper 10.2.2)
Example 2— Consideration is not the stated price—implicit price concession	IE8-IE10	Modify	The current example refers to the sale of prescription drugs to purchasers. Staff propose to be more specific in the example and state that the drugs are sold by a government research laboratory to a hospital or clinic. The Task Force decided to revisit this example once there is direction on the treatment of binding arrangements where the collection of consideration is not probable. (See Agenda paper 10.2.2)
Example 3—Implicit price concession	IE11-IE14	Modify	The current example refers to the provision of emergency medical services by a government hospital to an uninsured patient. Due to the condition of the patient, the hospital is compelled to provide the medical services. Staff propose that there is no need to change this example, as it is applicable to the public sector. However, the Task Force decided to revisit this example once there is direction on the treatment of binding arrangements where the collection of consideration is not probable. (See Agenda paper 10.2.2)
Example 4— Reassessing the criteria for identifying a binding arrangement	IE15-IE18	Modify	The current example refers to a generic entity licensing a patent to a purchaser in exchange for a usage-based royalty. In the third year of the license period, the purchaser experienced a significant decline in creditworthiness and a reassessment of the criteria in paragraph 11 is required. Staff propose that the nature of the license and the parties involved should be specified to be more relevant for the public sector. In addition, the Task Force decided to revisit these examples once there is direction on the treatment of binding arrangements whose consideration is probable. (See Agenda paper 10.2.2)

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Modifications of a Binding Arrangement			
Example 5— Modification to a binding arrangement for goods	IE19-IE20	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case A: Additional products for a price that reflects the stand-alone selling price	IE21-IE22	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case B: Additional products for a price that does not reflect the stand-alone selling price	IE23-IE25	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 6—Change in the transaction price after a modification to a binding arrangement	IE26-IE33	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 7— Modification of a binding arrangement of services	IE34-IE37	Modify	The current example refers to an entity providing office cleaning services. Staff proposed changing the example to the provision of legal aid services. The Task Force decided to replace the cleaning services with legal aid or payroll processing services based on input from members where such services are commonly provided by public sector entities in their jurisdictions.
Example 8— Modification resulting in a cumulative catch-up adjustment to revenue	IE38-IE42	Modify	The current example refers to an entity providing construction services. Staff proposed to retain the construction scenario but specify that the construction services are performed by the Department of Public Works. The Task Force agreed with the staff's approach, as a member noted that in their jurisdiction, the Department of Public Works has historically constructed low cost housing for sale or rental to citizens.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 9— Unapproved change in scope and price	IE43-IE44	Modify	The current example refers to an entity providing construction services where the entity claims additional consideration due to delays caused by the purchaser. The staff and Task Force agreed to retain this example and make similar modifications as noted in Example 8 above.
Identifying Performance Obligations			
Example 10—Goods and services are not separately identifiable			
- Case A – Significant integration service	IE45-IE49	Modify	The current example refers to an entity providing construction services where the promises to transfer goods or services are not separately identifiable. The staff and Task Force agreed to retain this example and make similar modifications as noted in Example 8 above.
- Case B – Significant integration service	IE50-IE52	Modify	The current example refers to an entity providing construction services where the promises to transfer goods or services are not separately identifiable. The staff and Task Force agreed to retain this example and make similar modifications as noted in Example 8 above.
Example 11— Determining whether goods or services are distinct			
- Case A: Separately identifiable good or services	IE53-IE57	Modify	The current example refers to a software developer. The Task Force instructed staff to consider replacing the reference of intellectual property or software developer with sale of wireless spectrum. Alternatively, staff could use the example of a shared services agreement.
- Case B: Significant customisation	IE58-IE62	Modify	The current example refers to a software developer. The Task Force instructed staff to consider replacing the reference of intellectual property or software developer with sale of wireless spectrum. Alternatively, staff could use the example of a shared services agreement.
- Case C: Promises are separately identifiable (installation)	IE63-IE67	Modify	The current example refers to a software developer. The Task Force instructed staff to consider replacing the reference of intellectual property or software developer with sale of wireless spectrum. Alternatively, staff could use the example of a shared services agreement.
- Case D: Promises are separately identifiable (restrictions to a binding arrangement)	IE68-IE69	Modify	The current example refers to a software developer. The Task Force instructed staff to consider replacing the reference of intellectual property or software developer with sale of wireless spectrum. Alternatively, staff could use the example of a shared services agreement.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
- Case E: Promises are separately identifiable (consumables)	IE70-IE74	Modify	The current example refers to a software developer. The Task Force instructed staff to consider replacing the reference of intellectual property or software developer with sale of wireless spectrum. Alternatively, staff could use the example of a shared services agreement.
Example 12—Explicit and implicit promises in a binding arrangement			
- Case A: Explicit promise of service	IE74-IE75	Modify	The current example refers to a manufacturer who sells products to a distributor. The Task Force acknowledged that the public sector may not be involved in manufacturing products. However, the Task Force retained this example and instructed staff to replace distributor with third-party beneficiaries to illustrate the three-party arrangements in the public sector.
- Case B: Implicit promise of service	IE79-IE80	Modify	The current example refers to a manufacturer who sells products to a distributor. The Task Force acknowledged that the public sector may not be involved in manufacturing products. However, the Task Force retained this example and instructed staff to replace distributor with third-party beneficiaries to illustrate the three-party arrangements in the public sector.
- Case C: Services are not a promised service	IE81-IE83	Modify	The current example refers to a manufacturer who sells products to a distributor. The Task Force acknowledged that the public sector may not be involved in manufacturing products. However, the Task Force retained this example and instructed staff to replace distributor with third-party beneficiaries to illustrate the three-party arrangements in the public sector.
Performance Obligations Satisfied Over Time	IE84		
Example 13—Purchaser simultaneously receives and consumes the benefits or service potential	IE85-IE86	Modify	The current example refers to payroll services. Staff proposed changing the example to legal aid services performed by a government agency. The Task Force agreed with the staff's proposal.
Example 14—Assessing alternative use and right to payment	IE87-IE90	Modify	The current example refers to payroll services. Similar to Example 13, staff proposed to change the example to the provision of legal aid services. However, to have a greater variety of examples, the Task Force decided to replace the payroll services with audit services where the terms of the agreement specify that the auditor would be paid for work performed to date even upon cancellation/termination of the audit before rendering an opinion.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 15—Asset has no alternative use to the entity	IE91-IE94	Modify	The current example refers to an entity building a specialized satellite with no alternative use. Staff considered reworking the example to ensure that it is a government entity that builds the specialized satellite. However, the Task Force instructed staff to make the example more generic or consider an alternative asset that would be applicable to the public sector.
Example 16—Enforceable right to payment for performance completed to date	IE95-IE98	Modify	The current example refers to an entity building an item of equipment with a right to payment for performance to date. The staff and Task Force agreed to modify the example to a scenario involving the Department of Public Works (similar to Example 8) or an audit (similar to Example 14).
Example 17—Assessing whether a performance obligation is satisfied at a point in time or over time	IE99		
- Case A: Entity does not have an enforceable right to payment for performance completed to date	IE100-IE101	Modify	The current example deals with the entity constructing a residential building. Based on the reasoning set out in Example 8, the Task Force agreed to retain the construction scenario but specify that the work is performed by the Department of Public Works.
- Case B: Entity has an enforceable right to payment for performance completed to date	IE102-IE106	Modify	Modify for public sector context. See Example 17, Case A above.
- Case C: Entity has an enforceable right to payment for performance completed to date	IE107-IE108	Modify	Modify for public sector context. See Example 17, Case A above.
Measuring Progress Towards Complete Satisfaction of a Performance Obligation	IE109		
Example 18—Measuring progress when making goods or services available	IE110-IE112	Modify	The current example refers to a health club offering membership to purchasers. The Task Force instructed staff to consider using membership fees for either public swimming pools or public fitness centres in the example to be more relevant to the public sector.
Example 19—Uninstalled materials	IE113-IE118	Modify	The current example deals with the entity refurbishing a 3-storey building and installing elevators. The Task Force and staff agreed to retain the construction scenario but specify that the work is performed by a Department of Public Works, similar to Example 8.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Variable Consideration	IE119		
Example 20—Penalty gives rise to variable consideration	IE120-IE122	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 21—Estimating variable consideration	IE123-IE126	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Constraining Estimates of Variable Consideration	IE127		
Example 22—Right of return	IE128-IE133	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 23—Price concessions	IE134-IE135		
- Case A: Estimate of variable consideration is not constrained	IE136-IE138	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case B: Estimate of variable consideration is constrained	IE139-IE141	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 24—Volume discount incentive	IE142-IE146	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 25—Management fees subject to the constraint	IE147-151	Modify	The current example refers an entity providing asset management services over 5 years. The Task Force decided to refer to an asset management services in the context of Shared Services amongst government departments.
The Existence of a Significant Financing Component in the Binding Arrangement	IE152		
Example 26—Significant financing component and right of return	IE153-IE158	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 27—Withheld payments on a long-term binding arrangement	IE159-160	Modify	The current example deals with the entity constructing a residential building. The Task Force and staff agreed to retain the construction scenario but specify that the work is performed by a Department of Public Works, similar to Example 8.
Example 28—Determining the discount rate	IE161		
- Case A: Binding arrangement discount rate reflects the rate in a separate financing transaction	IE162-163	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case B: Binding arrangement discount rate does not reflect the rate in a separate financing transaction	IE164-165	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 29—Advance payment and assessment of the discount rate	IE166-IE169	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 30—Advance payment	IE170-IE172	Modify	The current example refers to an entity providing global telephone technology support and repair coverage. Staff proposed modifying the example so that the entity is a government-owned telecom company providing the telephone services. The Task Force agreed with the staff's proposal, as many telecom companies were historically owned by a government. One member of the Task Force also noted that the main wired telephone network in their jurisdiction is currently operated by a public sector entity.
Non-cash Consideration	IE173		
Example 31—Entitlement to non-cash consideration	IE174-IE176	Modify	The current example uses common shares as consideration paid by the purchaser to the entity. Staff proposed replacing common shares since this type of transaction is not common in the public sector, and the Task Force decided to retain the example in its entirety and replace common shares with Inventory or property, plant and equipment.
Consideration Payable to a Purchaser	IE177		
Example 32—Consideration payable to a purchaser	IE178-IE180	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Allocating the Transaction Price to Performance Obligations	IE181-IE182		
Example 33—Allocation methodology	IE183-IE185	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 34— Allocating a discount	IE186-IE187		
- Case A: Allocating a discount to one or more performance obligation	IE188-IE191	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case B: Residual approach is appropriate	IE192-IE195	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case C: Residual approach is appropriate	IE196	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 35— Allocation of variable consideration	IE197		
- Case A: Variable consideration allocated entirely to one performance obligation	IE198-IE201	Modify	The current example refers to an entity entering into a binding arrangement with a purchaser for two intellectual property licenses. Staff proposed specifying in the example that the government is selling a spectrum licence to make the example more relevant for the public sector. The Task Force instructed staff to either replace intellectual property licenses with spectrum or to leave the intellectual property licenses since universities hold Intellectual Property.
- Case B: Variable consideration allocated on the basis of stand-alone selling prices	IE202-IE206	Modify	The current example refers to an entity entering into a binding arrangement with a purchaser for two intellectual property licenses. Staff proposed specifying in the example that the government is selling a spectrum licence to make the example more relevant for the public sector. The Task Force instructed staff to either replace intellectual property licenses with spectrum or to leave the intellectual property licenses since universities hold Intellectual Property.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Binding Arrangement Costs	IE207		
Example 36— Incremental costs of obtaining a binding arrangement	IE208-IE210	Remove	The current example relates to costs incurred in a competitive bidding scenario. The Task Force concluded that this type of scenario is extremely rare for the public sector and instructed staff to consider removing this example.
Example 37—Costs that give rise to an asset	IE211		
- Incremental costs of obtaining a binding arrangement	IE212	Remove	The current example refers to sales commissions incurred upon entering a binding arrangement. The Task Force concluded that this type of scenario is rare for the public sector and instructed the staff to consider removing this example.
- Costs to fulfil a binding arrangement	IE213-IE215	Modify	The current example builds on the scenarios in IE208 to IE212; however, the upfront costs incurred in this example results in the recognition of various assets under IPSAS 17, <i>Property, Plant and Equipment</i> , IPSAS 31, <i>Intangible Assets</i> , as well as a binding arrangement asset under paragraph 96 of ED 70. The Task Force decided to retain this example, but as IE208 to IE212 were removed, the staff will modify this example to include a fact pattern that is relevant to the public sector.
PRESENTATION	IE216		
Example 38—Binding arrangement liability and receivable - Case A: Cancellable binding arrangement	IE217	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
- Case B: Non-cancellable binding arrangement	IE218-IE219	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 39—Binding arrangement asset recognised for the entity's performance	IE220-IE223	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 40—Receivable recognised for the entity's performance	IE224-IE227	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Disclosure	IE228		
Example 41—Disaggregation of revenue—quantitative disclosure	IE229-IE230	Retain	The current example illustrates the disaggregated revenue disclosures for a generic entity which has consumer products, transportation and energy segments. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 42—Disclosure of the transaction price allocated to the remaining performance obligations	IE231		
- Binding arrangement A	IE232-IE233	Modify	The current example refers to an entity providing cleaning services. The Task Force decided to replace the cleaning services with legal aid services.
- Binding arrangement B	IE235	Modify	The current example refers to an entity providing cleaning services and lawn maintenance services. The Task Force decided to replace these services with legal aid services.
- Binding arrangement C	IE236-IE238	Modify	The current example refers to an entity providing cleaning services over a two-year period. The Task Force decided to replace the cleaning services with legal aid services.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 43— Disclosure of the transaction price allocated to the remaining performance obligations— qualitative disclosure	IE239-240	Modify	The current example deals with the entity constructing a commercial building. The Task Force decided to retain the construction scenario but instructed staff to specify that the construction services are performed by the Department of Public Works, for the reasons noted in Example 8.
Warranties	IE241		
Example 44— Warranties	IE242-IE248	Remove	The current example deals with an entity that manufactures a product and provides a warranty. The Task Force instructed staff to consider removing the example and explaining to the Board that warranties are not anticipated to be applicable to the public sector.
Principal versus Agent Considerations	IE249		
Example 45— Arranging for the provision of goods or services (entity is an agent)	IE250-IE255	Modify	The current example deals with the entity that operates a website that enables purchasers to purchase goods from a range of suppliers who deliver the goods directly to the purchasers. Staff noted that it may be important to retain the example because it illustrates an important principle (principal versus agent), and that the fact pattern will need to be modified to be more relevant for the public sector. The Task Force agreed with the staff and instructed staff to clearly distinguish between a three-party arrangement and the principal versus agent concept.
Example 46—Promise to provide goods or services (entity is a principal)	IE256-IE262	Modify	The Task Force instructed the staff to modify this example for the same reasons as noted in Example 45.
Example 46A— Promise to provide goods or services (entity is a principal)	IE263-IE269	Modify	The Task Force instructed the staff to modify this example for the same reasons as noted in Example 45.
Example 47—Promise to provide goods or services (entity is a principal)	IE270-IE277	Modify	The Task Force instructed the staff to modify this example for the same reasons as noted in Example 45.
Example 48— Arranging for the provision of goods or services (entity is an agent)	IE278-IE284	Modify	The Task Force instructed the staff to modify this example for the same reasons as noted in Example 45.
Example 48A—Entity is a principal and an agent in the same binding arrangement	IE285-IE290	Modify	The Task Force instructed the staff to modify this example for the same reasons as noted in Example 45.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Purchaser Options for Additional Goods and Services	IE291		
Example 49—Option that provides the purchaser with a material right (discount voucher)	IE292-IE295	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
Example 50—Option that does not provide the purchaser with a material right (additional goods or services)	IE296-IE298	Modify	The current example refers to an entity entering into a binding arrangement to provide a handset and monthly network service for two years. Staff proposed specifying that the entity providing the telephone services is a government agency. The Task Force agreed to retain the example, as there are currently a number of government entities providing telephone landline services to purchasers.
Example 51—Option that provides the purchaser with a material right (renewal option)	IE299-IE308	Modify	The current example refers to an entity entering into a binding arrangement to provide maintenance services. The Task Force instructed staff to retain this example and to either make it more suitable for the public sector, or more generic so that the focus is on illustrating the underlying principle.
Example 52—Purchaser loyalty programme	IE309-IE312	Modify	The current example refers to a purchaser loyalty program. The Task Force instructed staff to rework this example so that it is more applicable to the public sector—e.g., refer to a loyalty program points at a museum operated by a public sector entity which can be redeemed for future discounts.
Non-refundable upfront fee	IE313		
Example 53—Non-refundable upfront fee	IE314-IE316	Modify	The current example involves a generic entity charging a non-refundable upfront fee which does not represent a separately identifiable good or service. The Task Force instructed staff to retain the example but modify the fact pattern to be more relevant for the public sector.
Licensing	IE317		
Example 54—Right to use intellectual property	IE318-IE319	Modify	The current example refers to an entity entering into a binding arrangement with a purchaser for a license to use software as it exists at a point in time. The Task Force instructed staff to amend the example so that the intellectual property license is for the use of a TV or film media which results in revenue recognition at a point in time.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 55—License of intellectual property	IE320-IE323	Modify	The current example refers to a license to use intellectual property related to a design and production process, which also grants the purchaser access to any updates to the intellectual property during the license period. The entity concludes that its license revenue is to be recognized over the licensing period. The Task Force instructed staff to modify the nature of the intellectual property license so that it is more applicable to the public sector.
Example 56— Identifying a separately identifiable license	IE324		
- Case A: License is not separately identifiable	IE325-IE327	Modify	The current example refers to an entity licensing its patent rights to manufacture an approved drug, as well as the provision of manufacturing services to a purchaser. The patent and the manufacturing services are determined to be one performance obligation. The Task Force instructed staff to retain the example and modify the nature of the license, so that it will be more relevant for the public sector.
- Case B: License is separately identifiable	IE328-IE332	Modify	The current example refers to a similar scenario as Example 56, Case A, but the patent for the drug and provision of manufacturing services are considered separate performance obligations. The Task Force instructed staff to retain the example and modify the nature of the license, so that it will be more relevant for the public sector.
Example 57— Franchise Rights	IE333		
- Identifying performance obligations	IE334-IE335	Remove	The current example refers to a franchise agreement with the purchaser. The Task Force instructed the staff to delete this example as franchises are not applicable to the public sector.
- Allocating the transaction price	IE336-IE337	Remove	The current example refers to a franchise agreement with the purchaser. The Task Force instructed the staff to delete this example as franchises are not applicable to the public sector.
- Application guidance: Licensing	IE338-IE340	Remove	The current example refers to a franchise agreement with the purchaser. The Task Force instructed the staff to delete this example as franchises are not applicable to the public sector.
Example 58—Access to intellectual property	IE341-IE346	Modify	The current example refers to an entity, a creator of comic strips, who licenses the use of the images and names of its comic strip characters in three of its comic strips to a purchaser for a four-year term. Staff propose modifying the example so that the entity is a state-owned television broadcaster that licenses the use of images and names. The Task Force agreed with the staff's approach.

Example Number and Description	ED 70 Paragraph Reference	Retain/ Modify/ Remove	Reason(s) for Retention, Modification or Removal of the Example
Example 59—Right to use intellectual property	IE347-IE350	Modify	The current example refers to a music record company licensing a music recording to a purchaser. Staff propose modifying the example so that the entity is a state-owned television broadcaster that licenses the use of historical documentaries to a purchaser. The Task Force agreed with the staff's approach.
Example 60—Sales-based royalty for a licence of intellectual property	IE351-IE352	Modify	The current example refers to a movie distribution company licensing a movie to a purchaser. Staff propose modifying the example so that the entity is a state-owned television broadcaster that licenses the use of movie or documentary to a purchaser. The Task Force agreed with the staff's approach.
Example 61—Access to intellectual property	IE353-IE357	Modify	The current example refers to a well-known sports team licensing the use of its name and logo to a purchaser. Staff propose modifying the example so that the entity is the department of tourism that licenses its name and logo to a purchaser in the tourism sector. The Task Force agreed with the staff's approach.
Repurchase Agreements	IE358		
Example 62—Repurchase agreements	IE359		
- Case A – Call Option: Financing	IE360-IE362	Retain*	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector. *The staff will consider amending the example to align with ED 64, <i>Leases</i> , which is expected replace IPSAS 13, <i>Leases</i> .
- Case B – Put Option: Lease	IE363-IE365	Retain	The current example refers to a generic entity and product. This example does not need substantive changes, other than changes to terminology to align with the public sector, as the fact pattern is generic and/or can apply to the public sector. The Task Force decided to retain the example in its entirety and requested staff to make changes to terminology if necessary to align to the public sector.
BILL-AND-HOLD ARRANGEMENTS	IE366		
Example 63—Bill-and-hold arrangement	IE367-IE371	Remove	The Task Force instructed staff to consider removing this example, as Bill-and-hold arrangements are extremely rare in the public sector.

Appendix B – Additional Examples Required to Illustrate Concepts Added to ED 70 or Modified from IFRS 15

1. There needs to be examples to distinguish between transactions within the scope of ED 70 and ED 71, *Revenue without Performance Obligations* (ED 71). These examples should compare a binding arrangement with the transfer of a goods or service and a binding arrangement without a transfer of goods or service. One possible scenario could be a resource arrangement with or without the transfer of the resulting intellectual property to the purchaser.
2. An example of a hybrid transaction, which contains one or more components that are within the scope of ED 70, as well as one or more components that are within the scope of ED 71.
3. An example on enforceability by mechanisms other than legal means should be added.
4. Examples illustrating three-party arrangements should be added if none of the IFRS 15 examples can be modified to sufficiently illustrate this concept.

Agenda Item 10.3

IPSASB Meeting (June 2019)

Agenda Item 10.3

Exposure Draft ~~XX70~~
[Issued]
Comments due: [Date]

Proposed International Public Sector Accounting Standard®

Revenue ~~from~~ with Performance
Obligations Binding Arrangements
~~with 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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Commented [AD1]: [hyperlink](#)

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH PURCHASERS~~ PERFORMANCE OBLIGATIONS

REQUEST FOR COMMENTS

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

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

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

Commented [AD2]: To insert objective for Exposure Draft, Guide for Respondents and Specific Matter for Comments.

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EXPOSURE DRAFT ~~XX70, REVENUE FROM BINDING ARRANGEMENTS WITH PURCHASERS~~ WITH PERFORMANCE OBLIGATIONS

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Commented [AD3]: Title

In March 2019, the IPSASB changed the title of the [draft] ED, *Revenue from Binding Arrangements with Purchasers* and adopted the working title, *Revenue from Performance Obligations*.

Subsequently, the Task Force considered the title, *Revenue Transactions with Performance Obligations*. The Task Force settled on the title *Revenue with Performance Obligations* to reduce the length of the title and in consideration for Updated IPSAS 23 that would probably be titled, *Revenue without Performance Obligations*.

Question for the IPSASB

Does the IPSASB agree with the revised title of the [draft] ED, *Revenue with Performance Obligations*?

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Appendix B: <u>Amendments to Other IPSAS</u>	<u>Amendments to Other IPSAS</u>
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EXPOSURE DRAFT ~~XX~~70, REVENUE FROM BINDING ARRANGEMENTS WITH PURCHASERS' PERFORMANCE OBLIGATIONS

Objective

1. The objective of this [draft] Standard is to establish the principles that an reporting 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 binding arrangements with a purchaser that include performance obligations to transfer promised goods or services to the purchaser or third-party beneficiary, with a purchaser.
2. To meet the objectives in paragraph 1, this [draft] Standard requires a reporting entity to recognize revenue by applying the following steps¹:
 - (a) Step 1: Identifying the binding arrangement with a purchaser (see paragraphs 8-20);
 - (b) Step 2: Identifying the performance obligations in the binding arrangement (see paragraphs 21-29);
 - (c) Step 3: Determining the transaction price (see paragraphs 45-71);
 - (d) Step 4: Allocating the transaction price to the performance obligations in the binding arrangement (see paragraphs 45 and 72-85); and
 - (e) Step 5: Recognizing revenue when (or as) the entity satisfies a performance obligation (see paragraphs 30-44).
- ~~1. An entity shall consider the terms of the binding arrangement and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to binding arrangements with similar characteristics and in similar circumstances.~~
- ~~3. This [draft] Standard specifies the accounting for an individual binding arrangement with a purchaser. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of binding arrangements (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual binding arrangements (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.~~

Paragraphs AG2-AG4 provide additional guidance on the Objective.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard to in accounting for revenue arising from binding arrangements with a purchaser that include performance obligations as defined in this [draft] Standard to transfer promised goods or services to the purchaser or third-party beneficiary.~~all binding arrangements with purchasers, except the following. This [draft] Standard does not apply to:~~
 - (a) Revenue arising from other binding arrangements that do not include performance obligations to transfer goods or services to the purchaser or third-party beneficiary (the entity shall apply the requirements of ED 71, *Revenue without Performance Obligations in accounting for such binding arrangements*).

¹ 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.

Commented [AD4]: See agenda paper 10.2.1

Commented [AD5]: See agenda paper 10.2.4

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- ~~(a)~~(b) Lease contracts within the scope of IPSAS 13, *Leases*²;
- ~~(b)~~(c) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts³;
- (d) Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, *Financial Instruments*;
- ~~(e)~~(e) Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits* and IPSAS 40, *Public Sector Combinations*; and IPSAS 41, *Financial Instruments*; and
- ~~(d)~~(f) Non-monetary exchanges between entities in the same line of business to facilitate sales to purchasers or potential purchasers. For example, this [draft] Standard would not apply to a binding arrangement between a two 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 public sector entities that agree to an exchange of electricity to fulfill demand from their purchasers in different specified locations on a timely basis;
- (g) Transfers/Gains from the sale of non-financial assets that are not an output of an entity's activities and within the scope of IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*; ~~and~~
- (h) Changes in the value of other current assets;
- (i) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and
- ~~(e)~~(j) The extraction of mineral resources.
- ~~(f)~~—Revenue that falls within the scope of ~~[updated]~~ IPSAS 23, ~~[name to be determined]~~.

4. An entity shall apply this [draft] Standard to a binding arrangement with performance obligations (other than a contract ~~or~~ binding arrangement listed in paragraph 35) only if the counterparty to the binding arrangement is a purchaser. ~~A purchaser is a party that has entered into a binding arrangement with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.~~ A counterparty to the binding arrangement would not be a purchaser if, for example, the counterparty has entered into a binding arrangement with the entity to participate in an activity or process in which the parties to the binding arrangement share in the risks and economic benefits ~~or service potential~~ that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's activities.

Commented [AD6]: Staff retained contract in this paragraph to point out that Financial Instruments referred to contractual agreements in paragraph 3(d) above.

Commented [AD7]: Staff did not remove the reference to service potential in this paragraph because the IPSASB acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflow.

² 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.~~

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

EXPOSURE DRAFT ~~XX70~~, REVENUE FROM BINDING ARRANGEMENTS WITH PURCHASERS' PERFORMANCE OBLIGATIONS

5. A binding arrangement with a purchaser may be partially within the scope of this [draft] Standard and partially within the scope of other Standards listed in paragraph 35.
- (a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction price the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 7274–8587 to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of this [draft] Standard and to any other parts of the binding arrangement identified by paragraph 5(b)7(b).
- (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this [draft] Standard to separate and/or initially measure the part (or parts) of the binding arrangement.
6. This [draft] Standard specifies the accounting for the incremental costs of obtaining a binding arrangement with a purchaser and for the costs incurred to fulfill a binding arrangement with a purchaser if those costs are not within the scope of another Standard (see paragraphs 9092–103405). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement with a purchaser (or part of that binding arrangement) that is within the scope of this [draft] Standard.

Paragraphs AG5-AG6 provide additional guidance on the Scope.

Definitions

6.7. The following terms are used in this [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 **contract** is a **form-type** of a **binding arrangement** ~~includes contract.~~ (paragraphs AG7-AG13 provide additional guidance).

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

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

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

Commented [AD8]: See Agenda Paper 10.2.4.

Commented [AD9]: The IPSASB will consider whether guidance that covers transactions with two components is needed. Transactions may include both a performance obligation and non-performance obligation component ((for example a ticket with a donation/transfer component). An entity may receive an amount paid for a ticket to attend a gala dinner for charity that includes consideration paid to receive a meal and the remaining portion is effectively a donation and such revenue transaction is within the scope of ED 71, *Revenue without Performance Obligations*).

Commented [AD10]: See Agenda Paper 10.2.3.

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

Commented [AD11]: See Agenda Paper 10.2.4.

A purchaser is a party that acquires ~~pays for~~ goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary. (paragraph AG27 provides additional guidance). ~~A purchaser includes customer. A customer is a type of a purchaser.~~

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

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

Commented [AD12]: See Agenda Paper 10.2.4.

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between two other parties by receiving assets, goods or services (paragraph AG28 provides additional guidance).

Commented [AD13]: See Agenda Paper 10.2.4.

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

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

Recognition (Steps 1, 2 and 5)

Step 1: Identifying the Binding Arrangement (Step 1)

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

Commented [AD14]: See Agenda Paper 10.2.2.

- (a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;
- (b) The entity can identify each party's rights regarding the goods or services to be transferred;
- (c) The entity can identify the payment terms for the goods or services to be transferred;
- (d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG29-AG31 provide additional guidance); and
- (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or

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third-party beneficiary (paragraphs AG32-AG35 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the purchaser's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the binding arrangement if the consideration is variable because the entity may offer the purchaser a price concession (see paragraph 5153).

Paragraphs AG7-AG26 provides additional guidance on identifying the binding arrangement.

~~8.9.~~ A binding arrangement ~~is an agreement between two or more parties that~~ creates enforceable rights and obligations on the parties to the arrangement. Enforceability of the rights and obligations in a binding arrangement is created through legal or equivalent means. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Binding arrangements can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements with purchasers vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of purchaser or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement arrangement with a purchaser creates enforceable rights and obligations.

~~9.10.~~ Some binding arrangements with purchasers may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this [draft] Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

~~10.11.~~ For the purpose of applying this [draft] Standard, a binding arrangement does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

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

~~11.12.~~ If a binding arrangement with a purchaser meets the criteria in paragraph ~~8.10~~ at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a purchaser's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the purchaser or third-party beneficiary.

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

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~~12-14.~~ When a binding arrangement with a purchaser within the scope of this [draft] Standard does not meet the criteria in paragraph ~~840~~ and an entity receives consideration from the purchaser, the entity shall recognize the consideration received as revenue only when either of the following events has occurred:

- (a) The entity has no remaining obligations to transfer goods or services to the purchaser or third-party beneficiary and all, or substantially all, of the consideration promised by the purchaser has been received by the entity and is non-refundable; or
- (b) The binding arrangement has been terminated and the consideration received from the purchaser is non-refundable.

~~15.~~ An entity shall recognize the consideration received from a purchaser as a liability until one of the events in paragraph ~~14~~ occurs or until the criteria in paragraph ~~840~~ are subsequently met (see paragraph ~~13~~). Depending on the facts and circumstances relating to the binding arrangement, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the purchaser.

Combination of Binding Arrangements

~~13-16.~~ An entity shall combine two or more binding arrangements entered into at or near the same time with the same purchaser (or related parties of the purchaser) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

- (a) The binding arrangements are negotiated as a package with a single ~~economic~~ objective;
- (b) The amount of consideration to be paid in one binding arrangement depends on the price or performance of the other binding arrangement; or
- (c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance obligation in accordance with paragraphs ~~2123-2934~~.

Modifications to a Binding Arrangement

~~14-17.~~ A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a ~~change order, a variation, or an amendment~~ or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

~~15-18.~~ A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price, an entity shall

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estimate the change to the transaction price arising from the modification in accordance with paragraphs ~~4954–5355~~ on estimating variable consideration and paragraphs ~~5557–5759~~ on constraining estimates of variable consideration.

~~46-19.~~ An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

- (a) The scope of the binding arrangement increases because of the addition of promised goods or services that are ~~distinct–separately identifiable~~ (in accordance with paragraphs ~~2527–2934~~); and
- (b) The price of the 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 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 receives, because it is not necessary for the entity to incur the ~~selling~~-related costs that it would incur when ~~selling~~ ~~providing~~ a similar good or service to a new purchaser.

~~47-20.~~ If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph ~~1924~~, an entity shall account for the promised goods or services not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

- (a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services are ~~distinct–separately identifiable~~ from the goods or services transferred on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining ~~distinct–separately identifiable~~ goods or services in a single performance obligation identified in accordance with paragraph ~~21(b)23(b)~~) is the sum of:
 - (i) The consideration promised by the purchaser (including amounts already received from the purchaser) that was included in the estimate of the transaction price and that had not been recognized as revenue; and
 - (ii) The consideration promised as part of the modification to a binding arrangement.
- (b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services are not ~~distinct–separately identifiable~~ and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).
- (c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

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Step 2: Identifying Performance Obligations (Step 2)

~~18-21.~~ At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a purchaser and shall identify as a performance obligation each promise to transfer to the purchaser or third-party beneficiary either:

- (a) A good or service (or a bundle of goods or services) that is ~~distinct~~separately identifiable; or
- (b) A series of ~~distinct~~ separately identifiable goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary (see paragraph ~~22~~24).

Paragraphs AG36-AG1 provides additional guidance on identifying performance obligations.

~~19-22.~~ A series of ~~distinct~~ separately identifiable goods or services has the same pattern of transfer to the purchaser or third-party beneficiary if both of the following criteria are met:

- (a) Each ~~distinct~~ separately identifiable good or service in the series that the entity promises to transfer to the purchaser or third-party beneficiary would meet the criteria in paragraph ~~34~~36 to be a performance obligation satisfied over time; and
- (b) In accordance with paragraphs ~~3840-39~~41, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each ~~distinct~~ separately identifiable good or service in the series to the purchaser or third-party beneficiary.

Promises in Binding Arrangements with Purchasers

~~20-23.~~ A binding arrangement with a purchaser generally explicitly states the goods or services that an entity promises to transfer to a purchaser or third-party beneficiary. However, the performance obligations identified in a binding arrangement with a purchaser may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement with a purchaser may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the purchaser that the entity will transfer a good or service to the purchaser or third-party beneficiary.

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

Distinct Separately Identifiable Goods or Services

~~24-25.~~ Depending on the binding arrangement, promised goods or services may include, but are not limited to, the following:

- (a) ~~Sale of~~ Provision of goods produced by an entity (for example, inventory ~~such as of a~~ publications or municipal water provided for a ~~fe~~ manufacturer);
- (b) ~~Resale of~~ Goods purchased by an entity provided to citizens (for example, ~~merchandise of a retailer~~ waste collection bins);

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- (c) Resale of rights to goods or services purchased by an entity (for example, a emission allowances resold by an entity acting as a principal, ~~as described in see~~ paragraphs AG80AG77–AG88AG85);
- ~~(d)~~ Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a donor);
- ~~(d)(e)~~ Performing a task for a purchaser that is agreed-upon specified in the binding arrangement (for example, management of water facilities);
- ~~(e)(f)~~ 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 paramedics on site at an athletic competition organized by a community group) ~~or of making goods or services available for a purchaser to use as and when the purchaser decides;~~
- ~~(f)(g)~~ Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, ~~as described in see~~ paragraphs AG80AG77–AG88AG85);
- ~~(g)(h)~~ Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, an entity the health department selling providing a product drugs and supplements to a retailer pharmacies promises to transfer an additional good or service to an individual clinics who that purchases the product drugs and supplements from the retailer pharmacies);
- ~~(i)~~ Constructing, manufacturing or developing an asset on behalf of a purchaser; ~~(for example, a government works department building a recreational facility for a municipality);~~
- ~~(h)(j)~~ Granting licenses (for example, licenses or permits to provide alcoholic beverages or licenses or permits to hunt and fish, (see paragraphs AG102AG99–AG115AG112); and
- ~~(i)(k)~~ Granting options to purchase additional goods or services (when those options provide a purchaser with a material right; ~~as see described in~~ paragraphs AG89AG86–AG93AG90).

~~22-26.~~ A good or service that is promised to a purchaser is distinct separately identifiable if both of the following criteria are met:

- (a) The purchaser can generate economic benefits or service potential ~~—receive service potential embodied in the 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 separately identifiable). A purchaser can generate the economic benefits or service potential embodied in ~~receive service potential from~~ the good or service transferred to a third-party beneficiary where the transfer of the good or service to the third-party beneficiary contributes to the purchaser achieving its service delivery objectives; and
- (b) The entity's promise to transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct sufficiently specific within the context of the binding arrangement).

~~23-27.~~ A purchaser can generate the economic benefits or service potential embodied in the from a good or service in accordance with paragraph ~~26(a)28(a)~~ if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a purchaser may be able to generate the economic benefits or service potential ~~benefit or receive service potential~~

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~~from embodied in the~~ a good or service on its own. For other goods or services, a purchaser may be able to ~~generate the economic benefits or service potential embodied in the~~ 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 purchaser has already obtained from the ~~resource recipient entity~~ (including goods or services that the entity will have already transferred to the purchaser ~~or third-party beneficiary~~ under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the purchaser can ~~generate the economic benefits or service potential embodied in the~~ 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-provides~~ a good or service separately would indicate that a purchaser can ~~generate the economic benefits or service potential embodied in the~~ benefit or receive service potential from the good or service on its own or with other readily available resources.

24-28. In assessing whether an entity's promises to transfer goods or services to the purchaser ~~or third-party beneficiary~~ are separately identifiable in accordance with paragraph ~~26(b)28(b)~~, the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a purchaser ~~or third-party beneficiary~~ are not separately identifiable include, but are not limited to, the following:

- (a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the purchaser has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the purchaser. A combined output or outputs might include more than one phase, element or unit.
- (b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.
- (c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfill its promise by transferring each of the goods or services independently.

29. If a promised good or service is not ~~distinct~~ separately identifiable, 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 ~~separately identifiable~~ distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a binding arrangement as a single performance obligation.

Step 5: Satisfaction of Performance Obligations (Step 5)

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

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Paragraphs AG48-AG65 provides additional guidance on the satisfaction on performance obligations.

~~25-31.~~ For each performance obligation identified in accordance with paragraphs ~~2123-2934~~, an entity shall determine at the inception of the binding arrangement whether it satisfies the performance obligation over time (in accordance with paragraphs ~~3436-3638~~) or satisfies the performance obligation at a point in time (in accordance with paragraph ~~3739~~). If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

~~26-32.~~ 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 economic benefits or service potential ~~from embodied in~~ the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits ~~or service potential embodied in the~~ ~~or service potential of an~~ asset. The economic benefits ~~or service potential embodied in the~~ ~~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.

~~27-33.~~ When evaluating whether a purchaser obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs ~~AG116AG113-AG128AG125~~).

Performance Obligations Satisfied Over Time

~~28-34.~~ An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- (a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits ~~or~~ service potential provided by the entity's performance as the entity performs (see paragraphs ~~AG49AG46-AG50AG47~~);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph ~~AG51AG48~~); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph ~~3537~~) and the entity has an enforceable right to payment for performance completed to date (see paragraph ~~3638~~).

~~29-35.~~ An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative

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use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs ~~AG52AG49–~~
~~AG54AG51~~ provide guidance for assessing whether an asset has an alternative use to an entity.

~~30-36.~~ An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph ~~34(c)36(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 binding arrangement, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the binding arrangement is terminated by the purchaser or another party for reasons other than the entity's failure to perform as promised. Paragraphs ~~AG55AG52–AG59AG56~~ provide guidance for assessing the existence and enforceability of a right to payment and whether an entity's right to payment would entitle the entity to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

~~31-37.~~ If a performance obligation is not satisfied over time in accordance with paragraphs ~~3436–3638~~, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a purchaser ~~or third-party beneficiary~~ obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs ~~3032–3335~~. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- (a) The entity has a present right to payment for the asset—if a purchaser is presently obliged to pay for an asset, then that may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining ~~economic benefits or service potential~~~~benefits or service potential from embodied in~~, the asset in exchange.
- (b) The purchaser has legal title to the asset—legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining ~~economic benefits or service potential embodied in~~~~benefits or service potential from~~, an asset or to restrict the access of other entities to those ~~economic benefits or service potential~~~~or service potential~~. Therefore, the transfer of legal title of an asset may indicate that the purchaser has obtained control of the asset. If an entity retains legal title solely as protection against the purchaser's failure to pay, those rights of the entity would not preclude the purchaser from obtaining control of an asset.
- (c) The entity has transferred physical possession of the asset—the purchaser's ~~or third-party beneficiary's~~ physical possession of an asset may indicate that the purchaser has the ability to direct the use of, and obtain substantially all of the remaining ~~economic benefits or service potential embodied~~~~benefits or service potential from~~~~in~~ the asset or to restrict the access of other entities to those ~~economic benefits or service potential~~~~benefits or service potential~~. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a purchaser or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the purchaser controls. Paragraphs ~~AG116AG113–AG128AG125~~, ~~AG129AG126–AG130AG127~~ and ~~AG131AG128–AG134AG131~~ provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

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- (d) The purchaser has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the purchaser may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining ~~economic benefits or service potential embodied in~~ benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a purchaser but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.
- (e) The purchaser or third-party beneficiary has accepted the asset—the purchaser's or third-party beneficiary's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential benefits and service potential from, embodied in the asset. To evaluate the effect of ~~the an~~ acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG135AG132–AG138AG135.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

32-38. For each performance obligation satisfied over time in accordance with paragraphs 3436–3638, an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a purchaser or third-party beneficiary (i.e., the satisfaction of an entity's performance obligation).

33-39. An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for Measuring Progress

34-40. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG60AG57–AG65AG62 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the purchaser or third-party beneficiary.

35-41. When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to a purchaser or third-party beneficiary. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a purchaser or third-party beneficiary when satisfying that performance obligation.

36-42. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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Reasonable Measures of Progress

~~37-43.~~ An entity shall recognize revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

~~38-44.~~ In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Measurement (~~Steps 3 and 4~~)

~~39-45.~~ **When (or as) a performance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs ~~5557–5759~~) that is allocated to that performance obligation.**

Step 3: Determining the Transaction Price (~~Step 3~~)

~~40-46.~~ An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a purchaser or third-party beneficiary, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement with a purchaser may include fixed amounts, variable amounts, or both.

~~41-47.~~ The nature, timing and amount of consideration promised by a purchaser affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following:

- (a) Variable consideration (see paragraphs ~~4951–5456~~ and ~~5860~~);
- (b) Constraining estimates of variable consideration (see paragraphs ~~5557–5759~~);
- (c) The existence of a significant financing component in the binding arrangement (see paragraphs ~~5961–6466~~);
- (d) Non-cash consideration (see paragraphs ~~6567–6870~~); and
- (e) Consideration payable to a purchaser (see paragraphs ~~6971–7173~~).

~~42-48.~~ For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the purchaser or third-party beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

~~43-49.~~ If the consideration promised in a binding arrangement includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a purchaser or third-party beneficiary.

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~~44-50.~~ An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was ~~sold-provided~~ with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

~~45-51.~~ The variability relating to the consideration promised by a purchaser may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:

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

~~46-52.~~ An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

- (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics.
- (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

~~47-53.~~ An entity shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund Liabilities

~~48-54.~~ An entity shall recognize a refund liability if the entity receives consideration from a purchaser and expects to refund some or all of that consideration to the purchaser. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs ~~AG66AG63–AG73AG70~~.

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Constraining Estimates of Variable Consideration

~~49-55.~~ An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph ~~5254~~ 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.

~~50-56.~~ In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
- (b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
- (c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.
- (d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.
- (e) The binding arrangement has a large number and broad range of possible consideration amounts.

~~51-57.~~ An entity shall apply paragraph ~~AG113AG110~~ to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

~~52-58.~~ At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction price in accordance with paragraphs ~~8688-8991~~.

The Existence of a Significant Financing Component in the Binding Arrangement

~~53-59.~~ In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the purchaser or the entity with a significant benefit of financing the transfer of goods or services to the purchaser ~~or third-party beneficiary~~. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

~~54-60.~~ The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the price that a purchaser would have paid for the promised goods or services if the purchaser had paid cash for those goods or services when (or as) they transfer to the purchaser ~~or third-party beneficiary~~ (i.e.,

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the cash ~~selling~~ price). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

- (a) The difference, if any, between the amount of promised consideration and the cash ~~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 purchaser ~~or third-party beneficiary~~ and when the purchaser pays for those goods or services; and
 - (ii) The prevailing interest rates in the relevant market.

~~55-61.~~ Notwithstanding the assessment in paragraph ~~6062~~, a binding arrangement with a purchaser would not have a significant financing component if any of the following factors exist:

- (a) The purchaser paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the purchaser.
- (b) A substantial amount of the consideration promised by the purchaser is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the purchaser or the entity (for example, if the consideration is a sales-based royalty).
- (c) The difference between the promised consideration and the cash ~~selling~~ price of the good or service (as described in paragraph ~~6062~~) arises for reasons other than the provision of finance to either the purchaser or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the purchaser with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

~~56-62.~~ As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity transfers a promised good or service to a purchaser ~~or third-party beneficiary~~ and when the purchaser pays for that good or service will be one year or less.

~~57-63.~~ To meet the objective in paragraph ~~6062~~ when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its purchaser at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the purchaser or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the purchaser would pay in cash for the goods or services when (or as) they transfer to the purchaser ~~or third-party beneficiary~~. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the ~~customer's~~ ~~purchaser's~~ credit risk).

~~58-64.~~ An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements with purchasers in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding

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arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement with a purchaser.

Non-Cash Consideration

~~59-65~~ To determine the transaction price for binding arrangements in which a purchaser promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

~~60-66~~ If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the purchaser or third-party beneficiary (or class of purchaser) in exchange for the consideration.

~~61-67~~ 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 goods or services to which an entity is entitled to receive from a purchaser). If the fair value of the non-cash consideration promised by a 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 ~~55-57~~–~~57-59~~.

~~62-68~~ If a purchaser contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's fulfillment of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the purchaser.

Consideration Payable to a Purchaser

~~63-69~~ Consideration payable to a purchaser includes cash amounts that an entity pays, or expects to pay, to the purchaser (or to other parties that purchase the entity's goods or services from the purchaser). Consideration payable to a purchaser also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the purchaser). An entity shall account for consideration payable to a purchaser as a reduction of the transaction price and, therefore, of revenue unless the payment to the purchaser is in exchange for a distinct-separately identifiable good or service (as described in paragraphs ~~25-27~~–~~29-31~~) that the purchaser transfers to the entity. If the consideration payable to a purchaser includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs ~~49-51~~–~~57-59~~.

~~64-70~~ If consideration payable to a purchaser is a payment for a distinct-separately identifiable good or service from the purchaser, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the purchaser exceeds the fair value of the distinct-separately identifiable good or service that the entity receives from the purchaser, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the purchaser, it shall account for all of the consideration payable to the purchaser as a reduction of the transaction price.

~~65-71~~ Accordingly, if consideration payable to a purchaser is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

Commented [AD15]: The IPSASB concluded that fair value as defined in IFRS 13 is relevant to some assets and liabilities held by public sector entities because measuring the current exit value of an asset or a liability is consistent with the measurement objective that exists in a number of IPSAS. However, the IPSASB recognizes that all IPSAS will need to be reviewed to determine whether references to fair value in those standards will need to be changed to another measurement basis that better reflects the unique characteristics of transactions in the public sector.

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- (a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser ~~or third-party beneficiary~~; and
- (b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.

Step 4: Allocating the Transaction Price to Performance Obligations (Step 4)

~~66-72.~~ The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or ~~distinct-separately identifiable~~ good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the purchaser ~~or third-party beneficiary~~.

~~67-73.~~ To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the binding arrangement on a relative stand-alone ~~selling price~~-basis in accordance with paragraphs ~~7577-7981~~, except as specified in paragraphs ~~8082-8284~~ (for allocating discounts) and paragraphs ~~8385-8587~~ (for allocating consideration that includes variable amounts).

~~68-74.~~ Paragraphs ~~7577-8587~~ do not apply if a binding arrangement has only one performance obligation. However, paragraphs ~~8385-8587~~ may apply if an entity promises to transfer a series of ~~distinct-separately identifiable~~ goods or services identified as a single performance obligation in accordance with paragraph ~~21(b)23(b)~~ and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone ~~Selling~~ Prices

~~69-75.~~ 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 the inception of the binding arrangement of the ~~distinct-separately identifiable~~ good or service underlying each performance obligation in the binding arrangement and allocate the transaction price in proportion to those stand-alone ~~selling~~ prices.

~~70-76.~~ The stand-alone ~~selling~~-price is the price at which an entity would ~~self-provide~~ a promised good or service separately to a purchaser. The best evidence of a stand-alone ~~selling~~-price is the observable price of a good or service when the entity ~~sells-provides~~ that good or service separately in similar circumstances and to similar purchasers. In a binding arrangement, ~~the~~ stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone ~~selling~~-price of that good or service.

~~71-77.~~ 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 ~~7274~~. When estimating a stand-alone ~~selling~~-price, an entity shall consider all information (including ~~market-conditions~~, entity-specific factors, ~~and~~ information about the purchaser or class of purchaser, ~~and market conditions where relevant~~) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

~~72-78.~~ 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-provides~~ goods or services and estimate the price that a purchaser in that market would be willing to pay for those goods or services. That approach might also include

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referring to prices from the ~~entity's competitors~~ other entities for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

- (b) Expected cost approach—an entity could forecast its expected costs of satisfying a performance obligation and, if applicable, add an appropriate margin for that good or service.
- (c) Residual approach—an entity may estimate the stand-alone 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 binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 77-79, the stand-alone selling price of a good or service only if one of the following criteria is met:
 - (i) The entity ~~sells~~ provides the same good or service to different 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~~ provided on a stand-alone basis (i.e., the selling price is uncertain).

73-79. A combination of methods may need to be used to estimate the stand-alone selling-prices of the goods or services promised in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone selling-prices. For example, an entity may use a residual approach to estimate the aggregate stand-alone selling-price for those promised goods or services with highly variable or uncertain stand-alone selling-prices and then use another method to estimate the stand-alone selling-prices of the individual goods or services relative to that estimated aggregate stand-alone selling-price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone selling price of each promised good or service in the 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 72-74 and the requirements for estimating stand-alone selling-prices in paragraph 77-79.

Allocation of a Discount

74-80. A purchaser 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 binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph 81-83 that the entire discount relates to only one or more, but not all, performance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all performance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling-prices of the underlying ~~distinct~~ separately identifiable goods or services.

75-81. An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the binding arrangement if all of the following criteria are met:

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

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- (b) The entity also regularly ~~sells-provides~~ on a stand-alone basis a bundle (or bundles) of some of those ~~distinct-separately identifiable~~ 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 ~~81(b)~~~~83(b)~~ is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.

~~76-82.~~ If a discount is allocated entirely to one or more performance obligations in the binding arrangement in accordance with paragraph ~~81~~~~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 ~~78(c)~~~~80(c)~~.

Allocation of Variable Consideration

~~77-83.~~ Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

- (a) One or more, but not all, performance obligations in the binding arrangement (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time); or
- (b) One or more, but not all, ~~distinct-separately identifiable~~ goods or services promised in a series of ~~distinct-separately identifiable~~ goods or services that forms part of a single performance obligation in accordance with paragraph ~~21(b)~~~~23(b)~~ (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

~~78-84.~~ An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a ~~distinct-separately identifiable~~ good or service that forms part of a single performance obligation in accordance with paragraph ~~21(b)~~~~23(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-separately identifiable~~ good or service (or to a specific outcome from satisfying the performance obligation or transferring the ~~distinct-separately identifiable~~ good or service); and
- (b) Allocating the variable amount of consideration entirely to the performance obligation or the ~~distinct-separately identifiable~~ good or service is consistent with the allocation objective in paragraph ~~72~~~~74~~ when considering all of the performance obligations and payment terms in the binding arrangement.

~~79-85.~~ The allocation requirements in paragraphs ~~72~~~~74~~–~~82~~~~84~~ shall be applied to allocate the remaining amount of the transaction price that does not meet the criteria in paragraph ~~84~~~~86~~.

Changes in the Transaction Price

~~80-86.~~ After the inception of the binding arrangement, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

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~~84-87.~~ An entity shall allocate to the performance obligations in the binding arrangement any subsequent changes in the transaction price on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone ~~selling~~ prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

~~82-88.~~ An entity shall allocate a change in the transaction price entirely to one or more, but not all, performance obligations or ~~distinct separately identifiable~~ goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph ~~21(b)23(b)~~ only if the criteria in paragraph ~~8486~~ on allocating variable consideration are met.

~~83-89.~~ An entity shall account for a change in the transaction price that arises as a result of a modification to a binding arrangement in accordance with paragraphs ~~1749-2022~~. However, for a change in the transaction price that occurs after a modification to a binding arrangement, an entity shall apply paragraphs ~~8688-8890~~ to allocate the change in the transaction price in whichever of the following ways is applicable:

- (a) An entity shall allocate the change in the transaction price to the performance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction price is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph ~~20(a)22(a)~~.
- (b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph ~~1924~~, an entity shall allocate the change in the transaction price to the performance obligations in the modified binding arrangement (i.e., the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

~~84-90.~~ An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement with a purchaser if the entity expects to recover those costs.

~~85-91.~~ The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement with a purchaser that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).

~~86-92.~~ Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the purchaser regardless of whether the binding arrangement is obtained.

~~87-93.~~ As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement

~~88-94.~~ If the costs incurred in fulfilling a binding arrangement with a purchaser are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*), an entity shall recognize an asset

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from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:

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

~~89-95.~~ For costs incurred in fulfilling a binding arrangement with a purchaser that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

~~90-96.~~ Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:

- (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to the purchaser ~~or third-party beneficiary~~);
- (b) Direct materials (for example, supplies used in providing the promised services to a purchaser ~~or third-party beneficiary~~);
- (c) Allocations of costs that relate directly to the binding arrangement or to activities ~~in-under~~ 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 used in fulfilling the binding arrangement);
- (d) Costs that are explicitly chargeable to the purchaser under the binding arrangement; and
- (e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

~~91-97.~~ An entity shall recognize the following costs as expenses when incurred:

- (a) General and administrative costs (unless those costs are explicitly chargeable to the purchaser under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph ~~96-98~~);
- (b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;
- (c) Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the binding arrangement (i.e., costs that relate to past performance); and
- (d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Amortization and Impairment

~~92-98.~~ An asset recognized in accordance with paragraph ~~90-92~~ or ~~94-96~~ shall be amortized on a systematic basis that is consistent with the transfer to the purchaser ~~or third-party beneficiary~~ of the goods or services to which the asset relates. The asset may relate to goods or services to be

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transferred under a specific anticipated binding arrangement (as described in paragraph ~~94(a)~~~~96(a)~~).

~~93-99.~~ An entity shall update the amortization to reflect a significant change in the entity's expected timing of transfer to the purchaser ~~or third-party beneficiary~~ of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

~~94-100.~~ An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph ~~9092~~ or ~~9496~~ exceeds:

- (a) The remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less
- (b) The costs that relate directly to providing those goods or services and that have not been recognized as expenses (see paragraph ~~9698~~).

~~95-101.~~ For the purposes of applying paragraph ~~100402~~ 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 ~~5557-5759~~ on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the purchaser's credit risk.

~~96-102.~~ Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph ~~9092~~ or ~~9496~~, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 17 and IPSAS 31). After applying the impairment test in paragraph ~~100402~~, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph ~~9092~~ or ~~9496~~ in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.

~~97-103.~~ An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph ~~100402~~ when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

Presentation

~~98-104.~~ **When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the purchaser's payment. An entity shall present any unconditional rights to consideration separately as a receivable.**

~~99-105.~~ If a purchaser pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e., a receivable), before the entity transfers a good or service to the purchaser ~~or third-party beneficiary~~, the entity shall present the binding arrangement as a binding arrangement liability when the payment is made or the payment is due (whichever is earlier). A binding arrangement liability is an entity's obligation to transfer goods or services to a purchaser ~~or third-party beneficiary~~ for which the entity has received consideration (or an amount of consideration is due) from the purchaser.

~~100-106.~~ If an entity performs by transferring goods or services to a purchaser ~~or third-party beneficiary~~ before the purchaser pays consideration or before payment is due, the entity shall

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present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41, *Financial Instruments*. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 112(b)114(b)).

~~101-107.~~ A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement with a purchaser, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

~~102-108.~~ This [draft] Standard uses the terms 'binding arrangement asset' and 'binding arrangement liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

~~103-109.~~ **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from binding arrangements with a purchaser s that include performance obligations to transfer promised goods or services to the purchaser or third-party beneficiary. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

- (a) Its binding arrangements with purchasers (see paragraphs 112114–121123);
- (b) The significant judgements, and changes in the judgements, made in applying this [draft] Standard to those binding arrangements (see paragraphs 122124–125127); and
- (c) Any assets recognized from the costs to obtain or fulfill a binding arrangement with a purchaser in accordance with paragraph 9092 or 9496 (see paragraphs 126128–127129).

~~104-110.~~ An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

~~105-111.~~ An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

Commented [AD16]: Disclosure to be discussed at the September 2019 Board meeting.

Disclosure may need to be updated to address for Enforceability, Performance Obligations, Revenue from binding arrangements where collection of consideration is not probable etc.

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Binding Arrangements with Purchasers

~~406-112.~~ An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:

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

Disaggregation of Revenue

~~407-113.~~ An entity shall disaggregate revenue recognized from binding arrangements with purchasers that include performance obligations ~~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 ~~AG139AG136-AG141AG138~~ when selecting the categories to use to disaggregate revenue.

~~408-114.~~ 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 ~~113415~~) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

~~409-115.~~ An entity shall disclose all of the following:

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

~~410-116.~~ An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph ~~118(a)120(a)~~) relates to the typical timing of payment (see paragraph ~~118(b)120(b)~~) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.

~~411-117.~~ An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:

- (a) Changes due to public sector combinations;
- (b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a

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change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

- (c) Impairment of a binding arrangement asset;
- (d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and
- (e) A change in the time frame for a performance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Performance Obligations

~~112~~118. An entity shall disclose information about its performance obligations in binding arrangements with purchasers, including a description of all of the following:

- (a) When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), ~~including when performance obligations are satisfied in a bill-and-hold arrangement~~;
- (b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs ~~557–575~~9);
- (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

~~113~~119. An entity shall disclose the following information about its remaining performance obligations:

- (a) The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and
- (b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph ~~119(a)~~121(a), which the entity shall disclose in either of the following ways:
 - (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or
 - (ii) By using qualitative information.

~~114~~120. As a practical expedient, an entity need not disclose the information in paragraph ~~119~~121 for a performance obligation if either of the following conditions is met:

- (a) The performance obligation is part of a binding arrangement that has an original expected duration of one year or less; or
- (b) The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph ~~AG62~~AG59.

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~~115-121.~~ An entity shall explain qualitatively whether it is applying the practical expedient in paragraph ~~120-122~~ and whether any consideration from binding arrangements with purchasers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph ~~119-124~~. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs ~~55-57~~–~~57-59~~).

Significant Judgements in the Application of this [draft] Standard

~~116-122.~~ 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 binding arrangements with purchasers. 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 ~~123-125~~–~~124-126~~); and
- (b) The transaction price and the amounts allocated to performance obligations (see paragraph ~~125-127~~).

Determining the Timing of Satisfaction of Performance Obligations

~~117-123.~~ For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

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

~~118-124.~~ For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a purchaser obtains control of promised goods or services.

Determining the Transaction Price and the Amounts Allocated to Performance Obligations

~~119-125.~~ 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 binding arrangement (if applicable); and
- (d) Measuring obligations for returns, refunds and other similar obligations.

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

~~120-126.~~ An entity shall describe both of the following:

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- (a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with ~~a purchaser that includes performance obligations a purchaser~~ (in accordance with paragraph ~~9092~~ or ~~9496~~); and
- (b) The method it uses to determine the amortization for each reporting period.

~~124-127.~~ An entity shall disclose all of the following:

- (a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a purchaser (in accordance with paragraph ~~9092~~ or ~~9496~~), by main category of asset (for example, costs to obtain binding arrangements with purchasers, pre-binding arrangement costs and setup costs); and
- (b) The amount of amortization and any impairment losses recognized in the reporting period.

Practical Expedients

~~122-128.~~ If an entity elects to use the practical expedient in either paragraph ~~6264~~ (about the existence of a significant financing component) or paragraph ~~9395~~ (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

~~123-129.~~ An entity shall apply this [draft] Standard for annual financial statements beginning on or after MM DD, YYYY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.

~~124-130.~~ 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

~~125-131.~~ For the purposes of the transition requirements in paragraphs ~~132134–138140~~:

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

~~126-132.~~ 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 ~~134136~~; or
- (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs ~~136138–138140~~.

~~127-133.~~ 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

Commented [AD17]: Effective and Transition Dates to be discussed at the September 2019 Board meeting.

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for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph ~~132(a)~~~~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.

~~128-134.~~ An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph ~~132(a)~~~~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 ~~1921-2022~~. 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 ~~119424~~).

~~129-135.~~ For any of the practical expedients in paragraph ~~134136~~ 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.

~~130-136.~~ If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph ~~132(b)~~~~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).

~~131-137.~~ An entity applying this [draft] Standard retrospectively in accordance with paragraph ~~132(b)~~~~134(b)~~ may also use the practical expedient described in paragraph ~~134(c)~~~~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 ~~135~~137.

~~132-138.~~ 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 ~~132(b)~~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

~~133-139.~~ 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) Objective (paragraph AG2-AG4);
- (b) Scope (paragraph AG5-AG6);
- (c) Definitions (paragraphs AG7-[AG28AG34](#));
- (d) Identifying the Binding Arrangement (paragraphs [AG29AG32-AG35AG38](#));
- (e) Identifying Performance Obligations (paragraphs [AG36AG39-AG1AG57](#));
- (f) Performance Obligations Satisfied Over Time (paragraphs [AG48AG58-AG59AG69](#));
- (g) Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (paragraphs [AG60AG70-AG65AG75](#));
- (h) Sale with a Right of Return (paragraphs [AG66AG76-AG73AG83](#));
- (i) Warranties (paragraphs [AG74AG84-AG79AG89](#));
- (j) Principal Versus Agent Considerations (paragraphs [AG80AG90-AG88AG98](#));
- (k) Purchaser Options for Additional Goods or Services (paragraphs [AG89AG99-AG93AG103](#));
- (l) Purchasers' Unexercised Rights (paragraphs [AG94AG104-AG97AG107](#));
- (m) Non-refundable Upfront Fees (and Some Related Costs) (paragraphs [AG98AG108-AG101AG111](#));
- (n) Licensing (paragraphs [AG102AG112-AG115AG125](#));
- (o) Repurchase Agreements (paragraphs [AG116AG126-AG128AG138](#));
- (p) Consignment Arrangements (paragraphs [AG129AG139-AG130AG140](#));
- (q) Bill-and-Hold Arrangements (paragraphs [AG131AG141-AG134AG144](#));
- (r) Purchaser Acceptance (paragraphs [AG135AG145-AG138AG148](#)); and
- (s) Disclosure of Disaggregated Revenue (paragraphs [AG139AG149-AG141AG151](#)).

Core principleObjective of [draft] IPSAS [X] (ED XX) (see paragraphs 1-3)

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

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- (a) Recognizes revenue to depict the transfer of promised goods or services to purchasers or third-party beneficiaries in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services;
- (b) Presents information about revenue and cash flows in the financial statements; and
- (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of revenue and cash flows arising from binding arrangements.

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

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

Scope (see paragraphs 3-6)

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

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

Definitions (see paragraphs 7)

Binding Arrangements

AG7. The [draft] IPSAS ~~[X]~~ (ED-XX) Standard is underpinned by the definition of a binding arrangements, being an arrangement that confers enforceable as rights and obligations on all the parties to the arrangement. In the public sector an arrangement is are enforceable when the purchaser is able to enforce the rights and obligations through by legal or equivalent means.

AG2-AG8. 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 to legal arrangements (described as equivalent means).

AG9. For an arrangement to be enforceable through 'equivalent means', the presence of a mechanism outside the legal systems that establishes the right of the purchaser to oblige the entity to satisfy the agreed obligations or be subject to consequences is required.

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~~AG3-AG10.~~ An entity considers the substance rather than the legal form of an arrangement in determining whether it is ~~a binding arrangement for the purposes of this~~ enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes: ~~[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) Sufficiently specific rights and obligations for both purchaser and entity (resource recipient); and~~
 - ~~(b) Remedies for non-performance by the entity which can be enforced by the purchaser through legal or equivalent means.~~
 - ~~(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~~
- ~~The arrangements may arise from contracts or through other legal means, such as statutory mechanisms.~~

~~AG11.~~ Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

~~AG12.~~ To be within the scope of this [draft] Standard the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG1-AG26).

~~AG13.~~ If an arrangement is not enforceable or the performance obligations are not 'sufficiently specific' (discussed further in paragraph AG41), the arrangement does not meet the definition of a binding arrangement and is outside the scope of this [draft] Standard. For revenue transactions for which a binding arrangement does not exist the entity shall consider whether ED 71 is applicable.

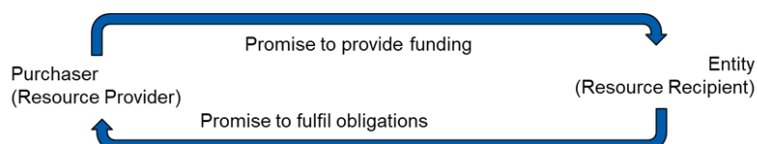
Enforceability

~~A binding arrangement is defined in paragraph 9 as "An arrangement that confers enforceable rights and obligations on the parties to the arrangement. A contract is a form of a binding arrangement".~~

~~AG14.~~ Therefore, ~~One of the~~ A key characteristics of a binding arrangement is ~~the ability of both parties to enforce the rights and obligations of the enforceable by the parties to that the agreement arrangement. That is, the entity that is to receive the resources consideration must be able to enforce the promise to receive funding (consideration). payment from~~ Similarly, ~~the entity that is providing those resources the funding (the purchaser) must be able to enforce fulfillment of performance obligations (the promise to transfer specific goods and services) by the entity (resource recipient). Similarly, the entity providing the resources (the purchaser) must be able to enforce fulfillment of performance obligations by the entity that receives the resources 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.~~

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AG4-AG15. These relationships are illustrated in the diagram below:



AG16. While it is important that the entity receiving the funding can enforce payment of those funds, when they have a right to the funds, for the purposes of this [draft] standard it is the purchaser's ability to compel the entity to deliver goods and services that creates the basis for the five-step framework for revenue recognition model provided for in this Standard.

To be within the scope of this [draft] Standard the rights and obligations in these arrangements must be enforceable by legal or equivalent means. 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).

AG17. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence. If the binding arrangement is in the form of a contract (which is a form of binding arrangement) then enforceability will be a matter of law. However, pParagraph 12 states that factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Some entities in the public sector are not able to contract in their own right but may enter into a binding arrangement and therefore enforceability may be by equivalent means.

AG18. Executive authority (sometimes called an executive order) is an authority given to a member or some members of parliament a government administration t to create legislation without having to be ratified by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to transfer goods or services.

AG19. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On their own this authority does not establish enforceable rights and obligations for the purposes of applying this [draft]Standard, however if the use of legislative authority were detailed in the binding arrangement as a means of enforcing the satisfaction of performance obligations by an entity this may result in a legislative enforcement mechanism.

AG20. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to transfer goods or services may be enforceable. The key determining factor is that the purchaser must be able to enforce the promises made in the binding arrangement of the entity.. The purchaser must have the ability and authority to compel the entity to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

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

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use of sovereign rights were detailed in the binding arrangement as a means of enforcement this may result in a legislative enforcement mechanism.

AG5. ~~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 Standard the rights and obligations in these arrangements must be enforceable by equivalent means. 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).~~

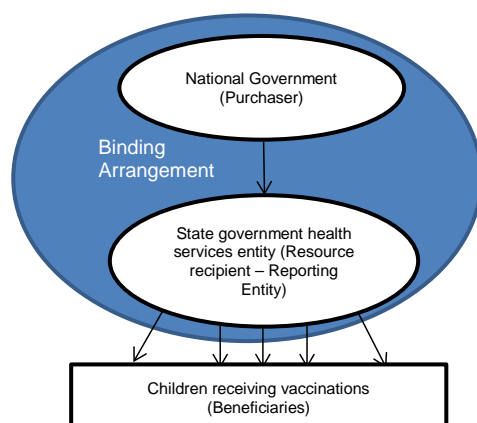
AG6. ~~Enforceability mechanisms by equivalent means may take many forms and may be jurisdictionally specific. But However, a key factor is that either the purchaser or a separate entity must be able to enforce the promised made in the binding arrangement by the entity. The purchaser or a separate entity must have the ability and authority to compel the entity to fulfill the promises established within the agreement or to seek redress should those promises not be fulfilled.~~

AG21. An entity may feel compelled to deliver on the performance obligations in a binding arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the purchaser to provide such funding. However, if the entity was presently entitled to funding in the future (through another binding arrangement) then this could be considered a valid enforcement mechanism.

AG22. When determining if a reduction of future funding would be an enforcement mechanism the entity shall apply a judgement based on the facts and circumstances. The purchaser's ability to reduce future funding and its past history of doing so, are key factors that may indicate the purchaser would reduce future funding in the event of a breach of promises made in a binding arrangement.

AG7-AG23. 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-three-party 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. However, for these three-party arrangements to be within the scope of this Standard the purchaser must have the ability to force the entity to deliver goods and services to third-party beneficiaries. In these tripartite-three-party arrangements the resource recipient (reporting entity) is not an agent of the purchaser because the resource recipient gains control of the consideration from the purchaser and is responsible for providing goods or services to the beneficiaries. This relationship is illustrated in the following diagram.

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~~AG8-AG24.~~ 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.~~

~~Enforcement mechanisms that are subsets of legislation may include cabinet and ministerial directives, executive authority 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.~~

~~AG9-AG1.~~ ~~Executive authority (sometimes called an executive order) is an authority given to some members of parliament to create legislation without having to be ratified by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to transfer goods or services.~~

~~AG10-AG1.~~ ~~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.~~

~~AG11-AG1.~~ ~~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.~~

AG12. When determining if a reduction of future funding would be an enforcement mechanism the entity must make a judgment based on the facts and circumstances. For example the purchaser's ability to reduce future funding and, their past history of doing so, or the likelihood that they would do so in reference to the binding arrangement are key factors that may indicate the purchaser would reduce future funding in the event of a breach of promises made in an agreement. 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,

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~~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.~~

AG25. A statement of intent or public announcement ~~for by~~ a purchaser (e.g. government) to spend money or deliver goods and services in a certain way is not an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a purchaser and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive obligation) under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

AG26. ~~In determining whether an arrangement is enforceable, it is necessary to consider any past history of enforcement. If past experience with a purchaser indicates that the purchaser never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and therefore the arrangement is not enforceable. However, if the entity has no experience with the purchaser, or has not previously breached any terms that would prompt the purchaser to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the purchaser would enforce the terms, and therefore the arrangement is considered enforceable.~~

Purchaser

AG27. 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. ~~In the case of a The delivery of public services often involves three parties. In these three-party (tripartite three-party) arrangements (discussed below),~~ the purchaser has a binding arrangement with and pays consideration to the entity to deliver ~~public goods and~~ services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over 55 ~~years old~~, the central government is the purchaser and the citizens are the ~~third-party beneficiary of the service~~. The purchaser can ~~also~~ enforce delivery of those goods and services or seek recourse ~~from the entity~~ if the promises in the binding arrangement ~~were are~~ not ~~be~~ fulfilled.

Third-Party Beneficiary

AG28. ~~The third-party beneficiary is not a party to the transaction itself, but if the transaction is completed, stands to receive services (or, less commonly, goods or assets).~~

Recognition (see paragraphs 8-44)

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

Economic Substance

AG13-AG29. 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

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- (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.

~~AG14-AG30.~~ 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.

~~AG15-AG31.~~ For the purposes of this [draft] Standard, economic substance includes commercial substance.

Probability of Revenue Recognition ~~Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 8(e) (see paragraphs 10(a)–10(e))~~

~~AG16-AG32.~~ Paragraph 8 provides the criteria (a)–(e) that must be met for a binding arrangement to be within the scope of this [draft] Standard. Paragraph 8(e) ~~of this criteria~~ requires collection of consideration to which an entity is entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary to be probable.

~~AG33.~~ Paragraph 8(e) requires that an entity assesses the purchaser's credit risk at the inception of the binding arrangement. The assessment of a purchaser's credit risk at the inception prevents entities from recognizing revenue from those binding arrangements that have a high credit risk of non-collection.

~~AG34.~~ Some binding arrangements exist where entities are compelled by legislation to provide certain goods and services (such as water and electricity) to all citizens, regardless of whether the citizen has the ability to pay for those goods or services. In these circumstances, when payment is not probable for delivery of the good or service to certain groups of citizens, the criterion for identifying a binding revenue arrangement in paragraph 8(e) is not met.

~~AG17-AG35.~~ For goods and services provided to citizens in a binding arrangement in exchange for agreed accounts of consideration, where the collection of the consideration is not probable at the inception of the binding arrangement, an entity shall apply paragraphs 13 to 15 of this [draft] Standard.

Step 2: Identifying Performance Obligations (see paragraphs 2125-2934)

~~AG18-AG36.~~ This [draft] ~~IPSAS Standard~~ requires revenue to be recognized ~~as or~~ 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.~~

~~AG19-AG37.~~ Paragraphs 2123 requires an entity to identify any performance obligations when a binding arrangement is entered into (Step 2 of the revenue recognition model). A performance obligation is defined as a promise [by the entity] in a binding arrangement with a purchaser to transfer to the purchaser ~~or third-party beneficiaries~~ either:

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

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AG38. The key features of this definition of a performance obligation ~~is~~are that goods and services must be ~~distinct~~separately identifiable and there must be a transfer of these goods and services to the purchaser or a third-party beneficiary. If goods or services (or a bundle of goods or services) are not transferred and/or are not ~~distinct~~separately identifiable, the transaction is outside the scope of this [draft] Standard and would be accounted for under (refer to [updated] IPSAS-23)[draft] ED 71.

AG39. In the public sector, identifying performance obligations may require significant judgement. A necessary condition for identifying a performance obligation is that the promise must be sufficiently specific to be able to determine when that performance obligation is fulfilled. In identifying performance obligations which are sufficiently specific an entity considers the following factors:

- (a) The nature or type of the goods or services;
- (b) The cost or value of the goods or services;
- (c) The quantity of the goods or services; and
- (d) The period over which the goods or services must be transferred.

AG40. The existence of performance indicators in relation to the delivery of goods and services does not necessarily indicate the existence of a performance obligation as defined in the Standard. A performance obligation is a promise within a binding arrangement to transfer goods or services or a bundle of goods or services to the purchaser or third-party beneficiary based on the terms and conditions agreed between two parties.

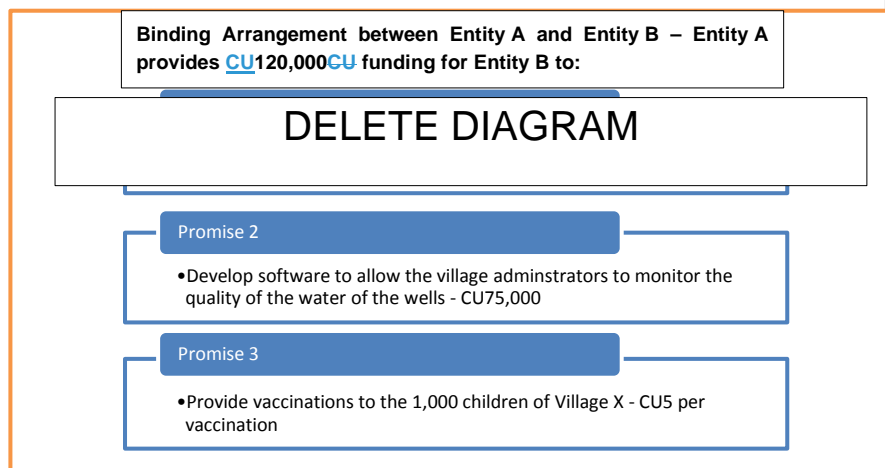
AG20. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Separately Identifiable ~~G~~goods and ~~S~~services

AG21-AG41. A good or service promised in a binding arrangement is ~~distinct~~separately identifiable if the following two criteria are both met (see paragraph 2628):

- (a) The purchaser can generate/derive the economic benefit or service potential 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~~separately identifiable). ~~A purchaser can generate economic benefit or service potential 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-sufficiently specific from other promises in the binding arrangement (i.e., the promise to transfer the good or service is ~~distinct~~separate from other obligations within the context of the binding arrangement).

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~~AG22-AG42.~~ ~~That is, not~~When identifying a performance obligation, only does the promised transfer of the goods and services in a promise ~~must need to~~ be distinct ~~separately identifiable~~ but also the promises within a binding arrangement must be distinct ~~(separately identifiable)~~ sufficiently specific from other promises within the same binding arrangement to allow for the purchaser to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations ~~within under~~ one binding arrangement.

~~AG43.~~ 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.

~~AG23.~~ 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.

~~AG24.~~ 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.

~~AG25.~~ 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.

~~AG26.~~ 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.

~~AG27-AG44.~~ Finally, the third promise in this binding arrangement is to vaccinate 1,000 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 21(b)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.

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Further guidance on performance obligations satisfied over time can be found at paragraphs AG45—AG56.

AG28. ~~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

AG29-AG45. The second requirement of a performance obligation is that there must be a transfer of goods and services to the purchaser or third-party beneficiary, ~~in the public sector, a beneficiary~~. If there is no requirement to transfer control of goods or services, the transaction is outside the scope of this [draft] Standard and would be accounted for under (refer to [updateddraft] IPSAS-23ED 71).

AG30-AG46. This [draft] IPSAS Standard requires that revenue is recognized when an entity satisfies a performance obligation by transferring a promised good or service to a purchaser: or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services.

AG31-AG47. Paragraph 32 provides indicators of control which include:

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

AG32. ~~Each of the examples above in paragraphs AG49AG35–AG51AG38 result in a transfer of goods and services from Entity B to the beneficiaries (the villagers).~~

AG33. ~~An example of an arrangement that would not satisfy this requirement to transfer goods or services may be would be if Entity A (purchaser) provides providing funding to Entity B to undertake a particular research program but there is with no requirement for Entity B to provide any intellectual property generated from the research to either Entity A or a beneficiary.~~

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

Performance Obligations Satisfied Over Time (see paragraph 34~~36~~)

AG34-AG48. Paragraph 34 provides that Aa performance obligation is satisfied over time if one of the following criteria is met:

- (a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential~~benefits or service potential~~ provided by the entity's performance as the entity performs (see paragraphs AG49AG46–AG50AG47);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser controls as the asset is created or enhanced (see paragraph AG51AG48); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG52AG49–AG54AG54) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG55AG52–AG59AG56).

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

~~AG35-AG49.~~ For some types of performance obligations, ~~in accordance with paragraphs 36(a),~~ the assessment of whether a purchaser receives the economic benefits or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

~~AG36-AG50.~~ For other types of performance obligations, an entity may not be able to readily identify whether a purchaser simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfill the remaining performance obligation to the purchaser. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

- (a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining performance obligation to another entity; and
- (b) Presume that another entity fulfilling the remainder of the performance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance obligation were to transfer to another entity.

Purchaser Controls the Asset as it is Created or Enhanced

~~AG37-AG51.~~ In determining whether a purchaser controls an asset as it is created or enhanced in accordance with paragraph 34(b)36(b), an entity shall apply the requirements for control in paragraphs 3032–3335 and 3739. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Performance does not Create an Asset with an Alternative Use (see paragraph 34(c)36(e))

~~AG38-AG52.~~ In assessing whether an asset has an alternative use to an entity in accordance with paragraph 34(c)36(e) and 3537, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as selling-providing it to a different purchaser. The possibility of the binding arrangement with the purchaser being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

~~AG39-AG53.~~ A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a purchaser could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

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~~AG40-AG54.~~ 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~~-provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a purchaser or are located in remote areas.

Right to Payment for Performance Completed to Date (see paragraph ~~34(c)36(e)~~)

~~AG41-AG55.~~ In accordance with paragraphs ~~34(c)36(e)~~ and ~~3638~~, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the purchaser or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the total cost of the goods ~~and-or~~ 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 margin) rather than compensation for only the entity's potential ~~deficit-loss~~ of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled as promised, but an entity should be entitled to compensation for either of the following amounts:

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

~~AG42-AG56.~~ An entity's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, an entity will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether it has a right to payment for performance completed to date, an entity shall consider whether it would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangements were to be terminated before completion for reasons other than the entity's failure to perform as promised.

~~AG43-AG57.~~ In some binding arrangements, a purchaser may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the purchaser might not have any right to terminate the binding arrangement. If a purchaser acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a purchaser fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser the goods or services promised in the binding arrangement and require the purchaser to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to payment for performance completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the purchaser to perform its obligations (which include paying the promised consideration).

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~~AG44-AG58.~~ In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

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

~~AG45-AG59.~~ The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a purchaser, the payment schedule might not necessarily provide evidence of the entity's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the purchaser is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation
(see paragraphs ~~3436-3638~~)

~~AG46-AG60.~~ Methods that can be used to measure an entity's progress towards complete satisfaction of a performance obligation satisfied over time include the following:

- (a) Output methods (see paragraphs ~~AG61-AG63~~); and
- (b) Input methods (see paragraphs ~~AG64-AG65~~).

Output Methods

~~AG47-AG61.~~ Output methods recognize revenue on the basis of direct measurements of the value to the purchaser of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the purchaser. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the purchaser that are not included in the measurement of the output.

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~~AG48-AG62.~~ As a practical expedient, if an entity has a right to consideration from a purchaser in an amount that corresponds directly with the value to the purchaser of the entity's performance completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

~~AG49-AG63.~~ 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

~~AG50-AG64.~~ 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.

~~AG51-AG65.~~ A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a purchaser. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph [3840](#), do not depict the entity's performance in transferring control of goods or services to the purchaser. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

- (a) When a cost incurred does not contribute to an entity's progress in satisfying the performance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the performance obligation).
- (b) When a cost incurred is not proportionate to the entity's progress in satisfying the performance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a performance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:
 - (i) The good is not ~~distinct~~ separately identifiable;
 - (ii) The purchaser is expected to obtain control of the good significantly before receiving services related to the good;
 - (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and
 - (iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs [AG80-AG77](#)–[AG88-AG85](#)).

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Measurement (see paragraphs 45-85)

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

Sale with a Right of Return

~~AG52-AG66.~~ In some binding arrangements, an entity transfers control of a product to a purchaser and also grants the purchaser the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

- (a) A full or partial refund of any consideration paid;
- (b) A credit that can be applied against amounts owed, or that will be owed, to the entity; and
- (c) Another product in exchange.

~~AG53-AG67.~~ To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

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

~~AG54-AG68.~~ 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.

~~AG55-AG69.~~ An entity shall apply the requirements in paragraphs ~~4648-7173~~ (including the requirements for constraining estimates of variable consideration in paragraphs ~~5557-5759~~) to determine the amount of consideration to which the entity expects to be entitled (i.e., excluding the products expected to be returned). For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue when it transfers products to purchasers or third-party beneficiaries but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognized.

~~AG56-AG70.~~ 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).

~~AG57-AG71.~~ An asset recognized for an entity's right to recover products from a purchaser on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.

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~~AG58-AG72.~~ Exchanges by purchasers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this [draft] Standard.

~~AG59-AG73.~~ Binding arrangements in which a purchaser may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs ~~AG74-AG74-AG79-AG76~~.

Warranties

~~AG60-AG74.~~ It is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a purchaser with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the purchaser with a service in addition to the assurance that the product complies with agreed-upon specifications.

~~AG61-AG75.~~ If a purchaser has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a ~~distinct-separately identifiable~~ service because the entity promises to provide the service to the purchaser ~~or third-party beneficiary~~ in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a performance obligation in accordance with paragraphs ~~2123-2934~~ and allocate a portion of the transaction price to that performance obligation in accordance with paragraphs ~~7274-8587~~.

~~AG62-AG76.~~ If a purchaser does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the purchaser ~~or third-party beneficiary~~ with a service in addition to the assurance that the product complies with agreed-upon specifications.

~~AG63-AG77.~~ In assessing whether a warranty provides a purchaser ~~or third-party beneficiary~~ with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

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

~~AG64-AG78.~~ If a warranty, or a part of a warranty, provides a purchaser ~~or third-party beneficiary~~ with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a performance obligation. Therefore, an entity shall allocate the transaction price to the product and the service. If an entity promises both an

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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.

~~AG65-AG79.~~ A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. For example, a manufacturer ~~(such as a~~ government medical laboratory) might sell products ~~(such as diagnostic ultrasound scanners to both government-owned and privately owned medical centers and hospitals)~~ in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser ~~or third-party beneficiary~~ using a product for its intended purpose. Similarly, an entity's promise to indemnify the purchaser for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a performance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

Principal versus Agent Considerations

~~AG66-AG80.~~ When another party is involved in providing goods or services to a purchaser ~~or third-party beneficiary~~, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser. A specified good or service is a ~~distinct-separately identifiable good~~ or service (or a ~~distinct-separately identifiable~~ bundle of goods or services) to be provided to the purchaser ~~or third-party beneficiary~~ (see paragraphs ~~2628-2934~~). If a binding arrangement with a purchaser includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

~~AG67-AG81.~~ To determine the nature of its promise (as described in paragraph ~~AG80-AG77~~), the entity shall:

- (a) Identify the specified goods or services to be provided to the purchaser ~~or third-party beneficiary~~ (which, for example, could be a right to a good or service to be provided by another party (see paragraph ~~2527~~)); and
- (b) Assess whether it controls (as described in paragraph ~~3234~~) each specified good or service before that good or service is transferred to the purchaser ~~or third-party beneficiary~~.

~~AG68-AG82.~~ An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser ~~or third-party beneficiary~~. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser ~~or third-party beneficiary~~. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

~~AG69-AG83.~~ When another party is involved in providing goods or services to a purchaser ~~or third-party beneficiary~~, an entity that is a principal obtains control of any one of the following:

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

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- (b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.
- (c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if an entity provides a significant service of integrating goods or services (see paragraph ~~28(a)30(a)~~) provided by another party into the specified good or service for which the purchaser has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

~~AG70-AG84.~~ 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.

~~AG71-AG85.~~ An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

~~AG72-AG86.~~ Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph ~~AG82AG79~~) 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 purchaser~~ specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the purchaser (for example, if the purchaser has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a purchaser, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential embodied in or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.
- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the purchaser pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential ~~or~~

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~~service potential~~. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

~~AG73-AG87~~. The indicators in paragraph ~~AG86~~AG83 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

~~AG74-AG88~~. If another entity assumes the entity's performance obligations and rights in the 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 or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that performance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a performance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Purchaser Options for Additional Goods or Services

~~AG75-AG89~~. Purchaser options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, purchaser award credits (or points), renewal options to in a binding arrangement or other discounts on future goods or services.

~~AG76-AG90~~. If, in a binding arrangement, an entity grants a purchaser the option to acquire additional goods or services, that option gives rise to a performance obligation in the binding arrangement only if the option provides a material right to the purchaser that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of purchaser in that geographical area or market). If the option provides a material right to the purchaser, the purchaser in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.

~~AG77-AG91~~. If a purchaser 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 with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this [draft] Standard only when the purchaser exercises the option to purchase the additional goods or services.

~~AG78-AG92~~. Paragraph ~~7375~~ 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's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the purchaser would obtain when exercising the option, adjusted for both of the following:

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

~~AG79-AG93~~. If a purchaser has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone selling price of the option, allocate the

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transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Purchasers' Unexercised Rights

~~AG80-AG94~~. In accordance with paragraph ~~1054~~97, upon receipt of a prepayment from a purchaser, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that binding arrangement liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.

~~AG81-AG95~~. A purchaser's non-refundable prepayment to an entity gives the purchaser a right to receive a good or service in the future (and obliges the entity to stand ready to transfer a good or service). However, purchasers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

~~AG82-AG96~~. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the purchaser. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the purchaser exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs ~~5557-5759~~ on constraining estimates of variable consideration.

~~AG83-AG97~~. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a purchaser's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

Non-refundable Upfront Fees (and some Related Costs)

~~AG84-AG98~~. In some binding arrangements, an entity charges a purchaser a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees ~~in~~ for a health care membership, activation fees from telecommunication companies, setup fees ~~in~~ for ~~certain~~ some services and initial fees for some supplies.

~~AG85-AG99~~. To identify performance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the purchaser ~~or~~ ~~third-party beneficiary~~ (see paragraph ~~2426~~). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the purchaser the option to renew the binding arrangement and that option provides the purchaser with a material right as described in paragraph ~~AG90~~AG87.

~~AG86-AG100~~. 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 ~~2123-2934~~.

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~~AG87-AG101.~~ An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph ~~2426~~). 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 ~~AG65AG62~~. That is because the costs of setup activities do not depict the transfer of services to the purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph ~~9496~~.

Licensing

~~AG88-AG102.~~ A license establishes a purchaser's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

~~(b)~~ Rights for natural resources ~~Motion pictures, music and other forms of media and entertainment~~;

~~(b)(c)~~ Franchises; and

~~(c)(d)~~ Patents, trademarks and copyrights.

~~AG89-AG103.~~ In addition to a promise to grant a license (or licenses) to a purchaser, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph ~~2325~~). As with other types of binding arrangements, when a binding arrangement with a purchaser includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs ~~2123-2934~~ to identify each of the performance obligations in the binding arrangement.

~~AG90-AG104.~~ If the promise to grant a license is not distinct sufficiently specific from other promised goods or services in the binding arrangement in accordance with paragraphs ~~2527-2934~~, 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 separately identifiable from other goods or services promised in the binding arrangement include the following:

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

(b) A license that the purchaser or third-party beneficiary can generate economic benefits or service potential ~~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 purchaser or third-party beneficiary to access content).

~~AG91-AG105.~~ If the license is not distinct separately identifiable, an entity shall apply paragraphs ~~3032-3739~~ 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.

~~AG92-AG106.~~ If the promise to grant the license is distinct sufficiently specific from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate performance obligation, an entity shall determine whether the license transfers to

Commented [AD18]: This area should be discussed at the September 2019 Board meeting.

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a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the purchaser with either:

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

Determining the Nature of the Entity's Promise

~~AG93-AG107.~~ The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

- (a) The binding arrangement requires, or the purchaser reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the purchaser has rights (see paragraphs ~~AG108AG109~~ and ~~AG109AG106~~);
- (b) The rights granted by the license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph ~~AG107(a)AG104(a)~~; and
- (c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph ~~2426~~).

~~AG94-AG108.~~ Factors that may indicate that a purchaser could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the purchaser related to the intellectual property to which the purchaser has rights may also indicate that the purchaser could reasonably expect that the entity will undertake such activities.

~~AG95-AG109.~~ An entity's activities significantly affect the intellectual property to which the purchaser has rights when either:

- (a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) The ability of the purchaser to obtain economic benefits or service potential~~or receive service-potential~~ from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential~~or service-potential~~ from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

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

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~~AG96-AG110.~~ If the criteria in paragraph ~~AG107AG104~~ are met, an entity shall account for the promise to grant a license as a performance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential ~~service potential~~ from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph ~~34(a)36(a)~~). An entity shall apply paragraphs ~~3840-4446~~ to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

~~AG97-AG111.~~ If the criteria in paragraph ~~AG107AG104~~ are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the purchaser. This means that the purchaser can direct the use of, and obtain substantially all of the remaining economic benefits or service potential ~~service potential~~ from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph ~~3739~~ to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential ~~derive service potential~~ from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

~~AG98-AG112.~~ An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

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

Sales-Based or Usage-Based Royalties

~~AG99-AG113.~~ Notwithstanding the requirements in paragraphs ~~5557-5860~~, 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).

~~AG100-AG114.~~ The requirement for a sales-based or usage-based royalty in paragraph ~~AG113AG140~~ 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

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license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the purchaser would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

~~AG104-AG115~~. When the requirement in paragraph ~~AG114AG144~~ is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph ~~AG113AG140~~. When the requirement in paragraph ~~AG114AG144~~ is not met, the requirements on variable consideration in paragraphs ~~4951–5860~~ apply to the sales-based or usage-based royalty.

Repurchase Agreements

~~AG102-AG116~~. A repurchase agreement is a binding arrangement in which an entity ~~sells-provides~~ an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally ~~sold-provided~~ to the purchaser, an asset that is substantially the same as that asset, or another asset of which the asset that was originally ~~sold-provided~~ is a component.

~~AG103-AG117~~. Repurchase agreements generally come in three forms:

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

A Forward or a Call Option

~~AG104-AG118~~. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a purchaser does not obtain control of the asset because the purchaser is limited in its ability to direct the use of, and obtain substantially all of the remaining ~~economic~~ benefits ~~or service potential or service potential~~ from, the asset even though the purchaser ~~or third-party beneficiary~~ may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

- (a) A lease in accordance with IPSAS 13, *Leases*⁴ if the entity can or must repurchase the asset for an amount that is less than the original ~~selling~~ price of the asset; or
- (b) A financing arrangement in accordance with paragraph ~~AG147AG120~~ 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.

~~AG105-AG119~~. When comparing the repurchase price with the ~~selling~~ price, an entity shall consider the time value of money.

~~AG106-AG120~~. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the purchaser. The entity shall recognize the difference between the amount of consideration received from the purchaser and the amount of consideration to be paid to the purchaser as interest and, if applicable, as processing or holding costs (for example, insurance).

4 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*.

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~~AG107-AG121~~. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

~~AG108-AG122~~. 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 IPSAS 13.

~~AG109-AG123~~. To determine whether a purchaser has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the purchaser has a significant economic incentive to exercise the put option.

~~AG110-AG124~~. If the purchaser 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 ~~AG66-AG63-AG73-AG70~~.

~~AG111-AG125~~. 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 arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph ~~AG120-AG117~~.

~~AG112-AG126~~. 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 purchaser does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs ~~AG66-AG63-AG73-AG70~~.

~~AG113-AG127~~. When comparing the repurchase price with the ~~selling~~ price, an entity shall consider the time value of money.

~~AG114-AG128~~. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

~~AG115-AG129~~. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

~~AG116-AG130~~. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

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- (a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a purchaser of the dealer or until a specified period expires;
- (b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and
- (c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Bill-and-Hold Arrangements

~~AG117~~:~~AG131~~. A bill-and-hold arrangement is a binding arrangement under which an entity bills a purchaser for a product but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the purchaser's lack of available space for the product or because of delays in the purchaser's production schedules.

~~AG118~~:~~AG132~~. 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 ~~3739~~). For some binding arrangements, control is transferred either when the product is delivered to the purchaser's or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a purchaser may obtain control of a product even though that product remains in an entity's physical possession. In that case, the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential ~~or service potential~~ from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the purchaser over the purchaser's asset.

~~AG119~~:~~AG133~~. In addition to applying the requirements in paragraph ~~3739~~, for a purchaser to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

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

~~AG120~~:~~AG134~~. 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 ~~2123–2934~~ to which the entity shall allocate a portion of the transaction price in accordance with paragraphs ~~7274–8587~~.

Purchaser Acceptance

~~AG124~~:~~AG135~~. In accordance with paragraph ~~37(e)~~~~39(e)~~, a purchaser's acceptance of an asset may indicate that the purchaser has obtained control of the asset. Purchaser acceptance clauses may allow the purchaser to cancel a binding arrangement or require an entity to take remedial

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action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the purchaser obtains control of a good or service.

~~AG122-AG136~~. If an entity can objectively determine that control of a good or service has been transferred to the purchaser in accordance with the agreed-upon specifications in the binding arrangement, then purchaser acceptance is a formality that would not affect the entity's determination of when the purchaser has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of purchaser acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser ~~or third-party beneficiary~~ is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognized before the purchaser accepts the asset, the entity still must consider whether there are any remaining performance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

~~AG123-AG137~~. However, if an entity cannot objectively determine that the good or service provided to the purchaser ~~or third-party beneficiary~~ is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the purchaser has obtained control until the entity receives acceptance by the purchaser. That is because in that circumstance the entity cannot determine that the purchaser has the ability to direct the use of, and obtain substantially all of the remaining ~~economic~~ benefits ~~or service potential embodied in or service potential from~~, the good or service.

~~AG124-AG138~~. If an entity delivers products to a purchaser ~~or third-party beneficiary~~ for trial or evaluation purposes and the purchaser is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the purchaser until either the purchaser accepts the product or the trial period lapses.

Disclosure (see paragraphs ~~109141-128130~~)

Disclosure of Disaggregated Revenue

~~AG125-AG139~~. Paragraph ~~113145~~ requires an entity to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements with purchasers. Some entities may need to use more than one type of category to meet the objective in paragraph ~~113145~~ for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

~~AG126-AG140~~. 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 press~~ releases, annual reports or ~~investor-stakeholder~~ presentations);
- (b) Information regularly reviewed by the ~~chief operating decision-maker~~ ~~head of department~~ for evaluating the financial performance of ~~operating~~ segments; and
- (c) Other information that is similar to the types of information identified in paragraph ~~AG140(a)~~ ~~AG137(a)~~ and (b) and that is used by the entity or users of the

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entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

~~AG127-AG141~~. Examples of categories that might be appropriate include, but are not limited to, all of the following:

- (a) Type of good or service (for example, major product lines);
- (b) Geographical region (for example, country or region);
- ~~(c)~~ Market or type of purchaser (for example, government and non-government purchasers);
- ~~(e)~~~~(d)~~ Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);
- ~~(d)~~~~(e)~~ Duration of the binding arrangement (for example, short-term and long-term binding arrangements);
- ~~(e)~~~~(f)~~ Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time); and
- ~~(f)~~~~(g)~~ Sales channels (for example, goods sold-provided directly to consumers-purchasers or third-party beneficiaries and goods sold-provided through intermediaries).

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

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

...

Overall Considerations

...

Offsetting

...

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

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

- (c) ...

...

Effective Date

...

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

...

Implementation Guidance

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

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Illustrative Financial Statement Structure

...

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

...

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

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

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

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

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions <u>with performance obligations</u>	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	<u>X</u>	<u>X</u>

* 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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PURCHASERS PERFORMANCE OBLIGATIONS

	20X2	20X1
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
...
Total Expenses	(X)	(X)
Share of surplus of associates	X	X
Surplus/(deficit) for the period	(X)	X
Attributable to:		
Owners of the controlling entity	(X)	X
Non-controlling interest	(X)	X

...

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

...

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:
 - (a) ~~Work-in-progress arising under construction contracts, including directly related service contracts (see IPSAS 11, *Construction Contracts*); [Deleted]~~
 - (b) ...

...

Definitions

...

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

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
~~PURCHASERS~~ PERFORMANCE OBLIGATIONS

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] ED 70, *Revenue with Performance Obligations*.

...

Measurement of Inventories

...

Cost of Inventories of a Service Provider

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

...

Net Realizable Value

...

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

...

Disclosure

...

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

...

Effective Date

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
PURCHASERS PERFORMANCE OBLIGATIONS

51F. Paragraphs 2, 11, 28, 39 and 48 were amended by [draft] ED 70 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] ED 70 at the same time.

...

Amendments to IPSAS 16, *Investment Property*

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

...

Scope

...

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

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

...

Definitions

...

Investment Property

...

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

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

...

Disposals

...

EXPOSURE DRAFT ~~XX~~70, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
PURCHASERS PERFORMANCE OBLIGATIONS

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] ED 70. IPSAS 13 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

...

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

...

Effective Date

...

- 101H. Paragraphs 5, 13, 78 and 81 were amended by [draft] IPSAS [X] (ED XX) 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] ED 70 at the same time.

...

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

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

...

Derecognition

...

- 83A. However, an entity that, in the course of its ordinary activities, routinely ~~sells~~provides items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The ~~proceeds amount of consideration~~ from the ~~sale disposal~~ of such assets shall be recognized as revenue in accordance with IPSAS 9, Revenue from Exchange Transactions [draft] ED 70, Revenue with Performance Obligations.
84. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). ~~In determining t~~The date of disposal of an

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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] ED 70. 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 46–71 of [draft] IPSAS [X] (ED XX). Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [X] (ED XX).

...

Effective Date

...

- 107P. Paragraphs 83A, 84 and 87 were amended by [draft] ED 70 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] ED 70 at the same time.

...

Amendments to IPSAS 18, *Segment Reporting*

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

...

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

...

Segment Assets, Liabilities, Revenue, and Expense

...

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

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS~~ WITH
PURCHASERS' PERFORMANCE OBLIGATIONS

Effective Date

...

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

...

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

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

...

Scope

...

Other Exclusions from the Scope of the Standard

...

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

- (a) ~~Construction contracts (see IPSAS 11, *Construction Contracts*); and~~[Deleted]
- (b) ...
- (c) Revenue from binding arrangements with purchasers (see [draft] ED 70 *Revenue with Performance Obligations*). However, as [draft] ED 70, contains no specific requirements to address binding arrangements with purchasers that are, or have become, onerous, this [draft] ED 70 applies to such cases.

...

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

...

Effective Date

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS~~ WITH
PURCHASERS PERFORMANCE OBLIGATIONS

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

...

Implementation Guidance

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

...

Recognition

...

A Single Guarantee

...

Analysis

...

Conclusion

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

...

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

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

...

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except for:
 - (a) ...
 - (b) ~~Assets arising from construction contracts (see IPSAS 11, *Construction Contracts*);~~ Assets arising from binding arrangements that are recognized in accordance with [draft] ED 70, *Revenue with Performance Obligations*;
 - (c) ...

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
PURCHASERS ~~PERFORMANCE OBLIGATIONS~~

Effective Date

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

Commented [AD19]: Amendment to IPSAS 23 is not needed as there will be a new Standard that will be issued to replace IPSAS 23.

Scope

5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions performance obligations is addressed in IPSAS 9, *Revenue from Exchange Transactions* ~~[draft] IPSAS [X] (ED XX), *Revenue 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 performance obligation to transfer promised goods or services to the purchaser or third party beneficiary, they will be dealt with in accordance with IPSAS 9 ~~[draft] IPSAS [X] (ED XX)~~.

Recognition of Assets

EXPOSURE DRAFT ~~XX70~~, REVENUE FROM BINDING ARRANGEMENTS WITH
PURCHASERS' PERFORMANCE OBLIGATIONS

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. [Deleted]

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 a purchaser that includes performance obligations to transfer promised goods or services to the purchaser or third-party beneficiary that should be accounted for under IPSAS 9[draft] IPSAS [X] (ED XX).

Effective Date

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

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH PURCHASERS~~ PERFORMANCE OBLIGATIONS
 9[draft] IPSAS [X] (ED XX), Revenue with Performance Obligations 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
	Revenue				
X	Taxes	X	X	X	X
X	Fees, fines, penalties, and licenses	X	X	X	X
X	Revenue from exchange transactions <u>with</u> performance obligations	X	X	X	X
X	Transfers from other governments	X	X	X	X
X	Other revenue	X	X	X	X
X	Total revenue	X	X	X	X
	Expenses				
(...)	...	(...)	(...)	(...)	(...)
(X)	Total expenses	(X)	(X)	(X)	(X)
X	Share of surplus of associates	X	X	X	X
X	Surplus/(deficit) for the period	X	X	X	X
	Attributable to:				
X	Owners of the controlling entity	X	X	X	X
X	Non-controlling interest	X	X	X	X
X		X	X	X	X

* 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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PURCHASERS PERFORMANCE OBLIGATIONS

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

...

2.1. 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] ED 70, *Revenue with Performance Obligations*;
- (c) ...

...

Effective Date

...

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

...

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

Paragraphs 49, 64 and BC17 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:
 - (v) The amount determined in accordance with IPSAS 19; and

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
~~PURCHASERS~~ PERFORMANCE OBLIGATIONS

- (vi) The amount initially recognized (see paragraph 45) less, when appropriate, cumulative amortization recognized in accordance with IPSAS-9[draft] ED 70, *Revenue with Performance Obligations*.
- (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] ED 70, *Revenue with Performance Obligations*.

...

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] ED 70. 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] ED 70.

...

Effective Date

...

- 125I. Paragraphs 49 and 64 were amended by [draft] ED 70 issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] ED 70 at the same time.

...

Basis for Conclusions

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

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
PURCHASERS PERFORMANCE OBLIGATIONS

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] ED 70, *Revenue with Performance Obligations*. Where the transaction price is not a fair value, an entity should be required to determine measurement at initial recognition in the same way as if no consideration had been paid.

...

Amendments to IPSAS 31, *Intangible Assets*

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

...

Scope

...

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

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

...

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

...

Retirements and Disposals

...

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). ~~In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods.~~ An intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS~~ WITH
PURCHASERS PERFORMANCE OBLIGATIONS
 obligation is satisfied in [draft] ~~IPSAS [XX]~~ (ED ~~X~~)70. IPSAS 13, Leases applies to disposal by a
 sale and leaseback.

...

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

...

Effective Date

...

- 132K. Paragraphs 6, 113 and 115 were amended by [draft] ED 70 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] ED 70 at the same time.

...

Amendments to IPSAS 32, *Service Concession Arrangements*

Paragraphs 30, AG56, BC5, IG2 and IG4 are 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] ED 70, Revenue with Performance Obligations.

...

Effective Date

...

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

....

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
~~PURCHASERS~~ PERFORMANCE OBLIGATIONS

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]~~ ED 70, Revenue with Performance Obligations. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

...

Basis for Conclusions

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

...

BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in ~~IPSAS 9, Revenue from Exchange Transactions~~ [draft] ED 70, Revenue with Performance Obligations to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

...

Implementation Guidance

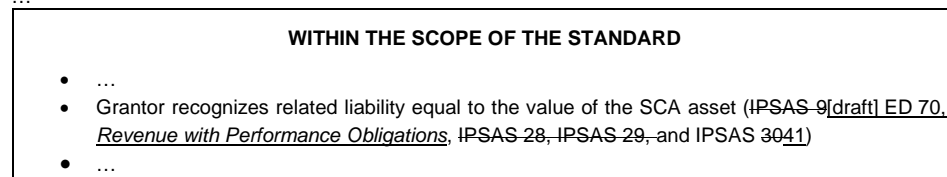
This guidance accompanies, but is not part of, IPSAS 32.

...

Accounting Framework for Service Concession Arrangements

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

...



...

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

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Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years		Indefinite (or may be limited by binding arrangement or license)	
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9[draft] ED 70 (revenue recognition)	

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

Paragraphs 41, IG45 and IG91 are amended and paragraph 154I is added. New text is underlined and deleted text is struck through.

...

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

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

Recognition and/or Measurement of Assets and/or Liabilities

...

41. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of ~~IPSAS 9, *Revenue from Exchange Transactions*~~[draft] ED 70, *Revenue with Performance Obligations*, or other receivables settled in cash or another financial asset in terms of ED 71, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*without Performance Obligations.

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
~~PURCHASERS~~ PERFORMANCE OBLIGATIONS

Effective Date

...

154I. Paragraph 41 was amended by [draft] IPSAS [X] (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] ED 70 at the same time.

...

Implementation Guidance

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

...

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

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with IPSAS 9[draft] ED 70 (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] ED 70) are met.

...

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

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis 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, Revenue from Exchange Transactions					To extent that 3 year relief period was adopted for assets and/or liabilities			

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[draft] ED 70, <i>Revenue Transactions with Performance Obligations</i>	√				√			
...
IPSAS 11, <i>Construction Contracts</i>	√							
[draft] ED 70, <i>Revenue Transactions with Performance Obligations</i>	√							
...

Appendix

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

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
•
IPSAS 9[draft] ED 70			√
• Relief for recognition and/or measurement of revenue related to adoption of three year relief period for recognition and/or measurement of financial instruments			
•

Amendments to IPSAS 40, *Public Sector Combinations*

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

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH PURCHASERS~~ PERFORMANCE OBLIGATIONS

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

...

Subsequent Measurement and Accounting

...

Contingent Liabilities

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

- (a) The amount that would be recognized in accordance with IPSAS 19; and
- (b) The amount initially recognized less, if appropriate, the cumulative amortization amount of revenue recognized in accordance with ~~IPSAS 9, Revenue from Exchange~~ [draft] ED 70, Revenue with Performance Obligations.

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

...

Effective Date

...

126E. Paragraph 115 was amended by [draft] ED 70 issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] ED 70 at the same time.

...

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 3, 45, 87, AG2, AG5, AG33, AG34, AG132, AG133 and AG158 are amended and paragraph 156B is added. New text is underlined and deleted text is struck through.

...

Scope

...

- 3. The impairment requirements of this Standard shall be applied to those rights arising from ~~IPSAS 9, Revenue from Exchange Transactions~~ [draft] IPSAS [X] (ED XX), Revenue with Performance Obligations and ~~IPSAS 23~~ ED 71 transactions which give rise to financial instruments for the purposes of recognizing impairment gains or losses.

...

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH~~
PURCHASERS PERFORMANCE OBLIGATIONS

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] ED 70, Revenue with Performance Obligations.
 - (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] ED 70, Revenue with Performance Obligations.
 - (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] ED 70 and non-exchange transactions within the scope of IPSAS 23.
 - (b) ...

...

Effective Date

...

- 156B. Paragraphs 3, 45 and 87 were amended by [draft] ED 70 issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after

EXPOSURE DRAFT ~~XX70~~, REVENUE ~~FROM BINDING ARRANGEMENTS WITH PURCHASERS~~ PERFORMANCE OBLIGATIONS
 [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] ED 70 at the same time.

Appendix A

Application Guidance

This Appendix is an integral part of, IPSAS 41.

Scope

...

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by retirement benefit plans and royalty agreements based on the volume of sales or service revenues that are accounted for under ~~IPSAS 9, Revenue from Exchange Transactions~~[draft] ED 70, *Revenue with Performance Obligations*.

...

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

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

- (i) ...; and

- (ii) The amount initially recognized less, when appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with the principles of ~~IPSAS 9~~[draft] ED 70 (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] ED 70 in determining when it recognizes the revenue from the guarantee and from the sale of goods.

...

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with the relevant revenue standard (see IPSAS-9[draft] ED 70 and IPSAS-23ED 71). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual 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] ED 70) and the carrying value of the asset is reduced by any loss allowance.
- (b) ...

...

Valuing Financial Guarantees Issued Through a Non-Exchange Transaction

...

AG132. In paragraph 9, "financial guarantee contract" is defined as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument." Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value.

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Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, cumulative ~~amortization~~ amount of revenue in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~~~[draft]~~ ED 70, *Revenue with Performance Obligations*.

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognize the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized, less, when appropriate, cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9~~~~[draft]~~ ED 70. Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

...

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~IPSAS 9~~~~[draft]~~ ED 70 include:

...

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PURCHASERS' PERFORMANCE OBLIGATIONS

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED-XX) ED 70.

Introduction-Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED-XX) ED 70. As this Standard is based on IFRS 15, *Revenue from Contracts with Customers* issued by the [International Accounting Standards Board \(IASB\)](#), the Basis for Conclusions outlines only those areas where [draft] IPSAS [X] (ED-XX) ED 70 departs from the main requirements of IFRS 15, [or where IPSASB considered such departures](#).

Overview

BC2. In May 2014, the IASB published the final version of IFRS 15, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.

BC3. In 2015⁵⁷, the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for revenue as part of the IPSASB's [convergence-alignment](#) program which aims to [converge-align](#) IPSASs with IFRSs[®] Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* which classified public sector revenue transactions into the following categories:

- (a) [Transactions with no performance obligations or stipulations;](#)
- (b) [Transactions with performance obligations or stipulations that do not meet all the requirements of IFRS 15; and](#)
- (c) [Transactions that meet all the requirements of IFRS 15 that involve the delivery of promised goods or services to customers; and arise from a contract with a customer which establishes performance obligations.](#)

[Transactions with no Performance Obligations or Stipulations](#)

BC4. The IPSASB proposed that guidance for revenue transactions that do not contain any performance obligations or stipulations will be provided in ED 71, *Revenue without Performance Obligations*. The accounting for transactions with no performance obligations based on the identification and fulfillment of performance obligations or stipulations is obviously impractical. Most respondents to the CP agreed with IPSASB.

[Transactions with Performance Obligations or Stipulations that do not Meet all the Requirements of IFRS 15](#)

BC5. The IPSASB considered two approaches for recognition of revenue transactions that contain performance obligations or stipulations, but do not have all the characteristics required by IFRS 15. Approach 1 was to retain the current exchange/non-exchange approach but update ED 71, *Revenue without Performance Obligations* to address some of the application issues identified such as accounting for transactions with time requirements. Approach 2 was to extend the five-step performance obligation approach in IFRS 15 to suit public sector transactions. This approach was

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put forward as the IPSASB's preferred approach in the CP. Majority of the respondents to the CP supported this approach because of the ambiguity in making the exchange/non-exchange distinction when applying IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Transactions that Meet the Requirements of IFRS 15

BC6. The public sector has revenue transactions that are akin to that of the private sector (for example revenue from sale of goods or services on commercial terms). The IPSASB proposed that the standards-level requirements and guidance for revenue transactions in the public sector that meet all the requirements of IFRS 15 should be aligned to the guidance in IFRS 15.

BC7. The IPSASB decided to develop of a new IPSAS, that is primarily drawn from IFRS 15 that would replace IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*. Majority of the respondents to the CP supported the IPSASB's approach to develop an IPSAS that is based on IFRS 15 that would replace IPSAS 9 and IPSAS 11 for transactions that meet the requirements of IFRS 15.

BC8. The development of standards-level requirements and guidance aligned with IFRS 15, will require modification to allow the approach to be applied to public sector transactions

Process

BC9. In developing the Standard, the IPSASB had regard to those aspects of IPSAS 9 and IPSAS 11 that had been developed specially to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard. The IPSASB also had regard to the guidance on revenue in the *Government Finance Statistics Manual 2014* (GFSM 2014) with the aim of avoiding unnecessary differences. In developing additional examples that illustrated the public sector environment the IPSASB also considered guidance developed by national standard setters or by bodies with oversight responsibilities for sectors of government.

BC10. The text of ED 70 is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. This new IPSAS replaces IPSAS 9 and IPSAS 11. IPSAS 9 and IPSAS 11 are principally based on IAS 18 and IAS 11 respectively.

Consistency Alignment with IFRS 15

BC3-BC11. In developing [draft] IPSAS [X] (ED-XX) ED 70, the IPSASB applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development, the IPSASB debated a number of issues and whether departure was justified.

BC4-BC12. 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 terminology in IFRS 15 to ensure consistency with The *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

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- (c) Additional public sector examples to help with the application of the [draft] IPSAS ~~[X]~~ (ED-XX) ED 70.

Title of ED 70

BC13. The IPSASB modified the title of ED 70. The IPSASB considered the titles of the ED 70, *Revenue from Binding Arrangements with Purchasers*, *Revenue from Performance Obligations*, *Revenue from Transactions with Performance Obligations* and *Revenue Transactions with Performance Obligations*. The IPSASB adopted the title, *Revenue with Performance Obligations to correspond to [draft] ED 71, Revenue without Performance Obligations* which is a proposed replacement standard for IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Objective of [draft] IPSAS [X] (ED XX)

BC14. The IPSASB included the five-step revenue recognition model in the authoritative section – “Objective” of ED 70 to explain the core principle of ED 70. The IASB only mentioned the five-step recognition model in the Basis for Conclusions of IFRS 15.

Scope (paragraphs 3-6)

BC15. The IPSASB aligned the objective and scope of [draft] ED 70 to that of IFRS 15. [draft] ED 70 only applies to revenue from binding arrangements that include performance obligations to transfer goods and services to purchasers or third-party beneficiaries. Other binding arrangements that do not include performance obligations may need to be accounted in accordance with the requirements of ED 71.

Public Sector Performance Obligation Approach Expansion of IFRS- 15 for applicability for the Public Sector

— The concept of revenue is broad in the public sector because of the multi-functional nature of the public sector. The IPSASB acknowledged that binding arrangements may include a broad range of public sector revenue transactions, some of which are within and outside the scope of [draft] IPSAS [X] (ED-XX).

BC16. The IPSASB expanded the requirements of IFRS 15 to form the PSPOA to allow it to address public sector specific transaction. The IPSASB used the five-step IFRS 15 revenue recognition approach as the basis of developing the public sector performance obligation approach. The IPSASB agreed that steps 1 and 2 of the five-steps required further consideration when developing the PSPOA. The IPSASB found no public sector reason to broaden steps, 3, 4 and 5. This included broadening the concept to a binding arrangement (of which a contract is one form) of identifying the contract was broadened for the public sector and relabeled, Identifying the binding arrangement because many arrangements for the provision of goods or services are non-contractual and there are to allow for jurisdictions where government and public sector entities cannot enter into legal obligations.

BC17. The IPSASB considered expanded that enforceability mechanisms for in a binding arrangements to allow for mechanism that are outside the legal system (on which IFRS 15 enforceability is based) would be an important aspect of any approach based on the fulfillment of performance obligations. The IPSASB took the view that the interpretation of enforceability would need to go beyond an obligation of the resource recipient to return resources directly to the resource provider (as in IPSAS 23) and include all situations where the transferor of resources is able to take remedies in the event of non-fulfillment of a performance obligation.

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BC18. Public sector transactions often involve three parties, the purchaser (resource provider) which provides the consideration, the entity (resource recipient), which receives the consideration and is responsible for the delivery of goods and services, and the third-party beneficiary of those goods and services, which can be individuals or households.

BC19. The concept of identifying whether promises to deliver goods and services to purchaser are distinct was also broadened for the public sector. The IPSASB decided that the identification of performance obligations would be dependent on the specificity of the promises to deliver goods and services.

Non-monetary Exchanges between Entities in the Same Line of Business

BC20. The IPSASB replaced the example of non-monetary exchanges between entities in the same line of business to facilitate sales to potential customers of oil with electricity, because it is more suitable to the public sector.

Definitions (see paragraph 79)

Approach to Definitions and Terminology

BC21. The IPSASB deliberated whether the defined terms in IFRS 15, “contract”, “contract asset”, “contract liability”, “customer”, “income”, “performance obligation”, “revenue”, “stand-alone price”, and “transaction price” were suitable for the public sector. The IPSASB retained the terms “performance obligation”, “revenue”, “stand-alone price”, and “transaction price” in [draft] ED 70.

BC22. The IPSASB ~~considered the PSPOA and~~ introduced the terms “binding arrangement”, “binding arrangement asset”, “binding arrangement liability”, “purchaser”, and “third-party beneficiary” in [draft] ED 70.

Binding Arrangements

BC23. 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 [draft] IPSAS [X] (ED XX) Standard, should encompass rights that arise from legislative or executive authority.

Binding Arrangement Asset and Binding Arrangement Liability

BC24. The IPSASB only made changes to terminology and 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.

BC25. The IPSASB considered removing the terms “binding arrangement asset” and “binding arrangement liability” from [draft] ED 70 since the terms, “asset” and “liability” are defined elsewhere in the IPSASB’s literature. The IPSASB refrained from removing the terms “binding arrangement asset” and “binding arrangement liability” because the definition of the latter captures an obligation to transfer goods or services to a purchaser or third-party beneficiary (rather than

Commented [AD20]: See Agenda Paper 10.2.3.

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transfer of cash or other financial instruments). The definition of a "binding arrangement asset" specifies the point at which an entity would transfer the rights in the binding arrangement, that is, "binding arrangement asset" within the scope of [draft] ED 70 to a receivable within the scope of IPSAS 41, *Financial Instruments*.

BC26. In many cases, the "binding arrangement asset" is a receivable, because it is an unconditional right to a consideration because only the passage of time is required before payment of the consideration is due. However, in other cases, an entity may satisfy a performance obligation but does not have an unconditional right to the consideration, because it first needs to satisfy another performance obligation in the binding arrangement. Similarly, the IPSASB retained the distinction between "binding arrangement asset" and "receivable" to align with the requirements of IFRS 15.

Purchaser and Third-Party Beneficiary

BC27. The IPSASB considered the terms "purchaser" and "resource provider" as there are suitable for public sector three-party arrangements. The IPSASB replaced the term, "customer" with the term, "purchaser", because the term is widespread in the IPSAS literature and is centered around transactions involving the transfer of goods or services. For the purposes of this [draft] ED 70, a customer is a type of a purchaser.

BC5-BC28. 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".

BC29. 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.

BC30. The IPSASB added the term "third-party beneficiary" following the term "purchaser" where appropriate to describe goods and services transferred in three-party arrangements, which are common in the public sector.

Revenue

BC31. The IPSASB agreed to refer to use "revenue" in place of rather than "income", to be consistent with IPSAS 1, *Presentation of Financial Statements*, which uses revenue to correspond to income in the IASs/IFRSs IFRS® Standards.

BC32. The IASB definition of income encompasses both revenue and gains. [draft] ED 70 uses the term "revenue", which encompasses both revenues and gains, in place of the term "income". The IPSASB included the definition of revenue in IPSAS 1 in [draft] ED 70.

BC33. 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 *Conceptual Framework*). The IPSASB added the references of "activities" in the definition of "customer" and "purchaser". 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.

BC34. The IPSASB acknowledged that the reference to "activities", may be misconstrued as if any transaction that arises from an entity's activities meets the definition. The IPSASB clarified that the

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reference to “activities” related to an “entity’s service delivery activities” rather than just broadly any activities.

Stand-Alone Price

Commented [AD21]: See Agenda Item 10.2.4.

BC35. The IPSASB replaced the term, “Stand-alone price” with the term ‘Stand-alone price’. The word “selling” is unlikely to relate to a lot of the transactions that will be accounted for under this [draft] ED 70.

BC36. The IPSASB also replaced all the references to “sell or sold” with the terms “provide” and “provided” respectively.

Transaction Price

Commented [AD22]: See Agenda Item 10.2.4.

BC37. The IPSASB considered replacing the term “transaction price” with the term “consideration” to reflect the public sector context. However, the IPSASB retained the term “transaction price” as it deals with price of an item whereas “consideration” represents a total value of payment.

Enforceability

BC6-BC38. The ~~IPSASB~~ ^{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] ~~ED 70~~ ^{Standard}.

BC7-BC39. 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~~ ^{questioned} the validity of a reduction of future funding as an enforcement mechanism.

BC8-BC40. The ~~Board-IPSASB~~ also discussed sovereign rights and economic coercion or political necessity.

BC9-BC41. The ~~Board-IPSASB~~ agreed that cabinet and ministerial decisions, executive authority and sovereign rights were subsets of legislation and may in some circumstances be valid enforcement mechanisms. ~~They-The IPSASB~~ discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this ~~may-could~~ create a valid enforcement mechanism.

BC40-BC42. The ~~Board-IPSASB~~ 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 the 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-that could~~ be reduced.

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~~BC11-BC43.~~ The Board also discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The ~~IPSASB~~ noted that paragraph 5.26 of the ~~Conceptual~~ Framework states "economic coercion, political necessity or other circumstances may give rise to situations where although the public sector entity is not legally 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".

~~BC12-BC44.~~ 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] ~~ED 70~~ ~~IPSAS~~ because a non-legally ~~giving-binding~~ obligation as cited in the ~~Conceptual~~ Framework is binding on the promisor only, whereas a binding arrangement as used in this ~~IPSAS~~ ~~requires~~ both parties ~~have~~ to agree to the rights and obligations within that agreement.

~~BC13-BC45.~~ 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 with other~~ parties, and therefore there is no binding arrangement. Such an announcement may be accounted for under ~~IPSAS 19~~ ~~by the government~~.

Recognition (see paragraphs 8-44)

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

Economic Substance

~~BC14-BC46.~~ The ~~IPSASB~~ decided to replace the ~~phrase-term~~ "commercial substance" with "economic substance", ~~includes which encompasses~~ commercial substance. The public sector entities for which ~~IPSAS~~ are designed do not generally have commercial objectives therefore the term 'commercial substance' ~~is do not seem to be in~~ appropriate.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph ~~8(e)~~11(e)

~~BC15-BC47.~~ 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.~~

~~BC48.~~ Paragraph 8(e) is part of the requirements in paragraph 8: *Identifying the binding arrangement(s) with a purchaser*. Paragraph 8(e) requires the collection of consideration to which an entity is entitled to be probable.

~~BC49.~~ 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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(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.

BC50. 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. ~~The IPSASB also acknowledged~~As a result, that public sector entities may enter into numerous binding arrangements where collectability of the consideration is not probable.

BC51. When payment is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 8(e) without modification could result in recognition of revenue once the consideration has been collected and the conditions in paragraph 1414 of the [draft] Standard ED 70 are met.

BC52. The IPSASB decided to retain paragraph 8(e) because:

(a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 7 of the [draft] Standard ED 70 and paragraph 5.29 of the IPSASB's eConceptual Framework; and

~~— The probability criterion is also important in the public sector because binding arrangements whose consideration is not collectible should not be recognized as revenue; and~~

(b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.

BC53. The IPSASB acknowledged that arrangements where the collectability of the consideration is in question are prevalent and material in the public sector. Information value could be added if the amounts billed for binding arrangements where collection of consideration is not probable are disclosed in the notes to the financial statements.

Economic Objective Combination of Binding Arrangements

BC54. The IPSASB considered replacing the term, 'economic-commercial objective', with the term, 'commercial-economic 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. However, the IPSASB finally decided to replace the ~~The~~ term, "commercial objective" with "objective" because the term: "economic objective" is more appropriate as it incorporates both objectives of profit making and service delivery could have a different connotation for the public sector.

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

Identifying a Performance Obligation in a binding arrangement Separately Identifiable Goods or Services

BC55. The ~~Board~~ IPSASB the word distinct in the context of goods and services and promises within a binding arrangement and decided that because of translation issues the term 'separately identifiable' should be used for goods and services and 'sufficiently specific' should be used for promises in a binding arrangement.

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BC16. 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.

BC17-BC56. The Board-IPSASB 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-IPSASB decided to maintain the IFRS 15 requirements for a performance obligation. Transactions that ~~did do~~ not have performance obligations ~~would will~~ be addressed in an updated IPSAS 23.

Economic Benefits and Service Potential from ~~Distinct~~ Separately Identifiable Goods or Services

BC57. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the ability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms "service potential" and "economic benefits". This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term "benefits" with "economic benefits" and "service potential" in [draft] ED 70.

Measurement (see paragraphs 45-85)

Step 4: Allocating the Transaction Price to Performance Obligations (see paragraphs 50 and 77-90)

BC58. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone prices of the goods or services. The best evidence of a stand-alone price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone price is not directly observable, an entity shall estimate the stand-alone price using either the:

- (a) **Adjusted market assessment approach** - an entity could evaluate the market in which it provides goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;
- (b) **Expected cost plus a margin approach** - an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or
- (c) **Residual approach** - an entity may estimate the stand-alone price by reference to the total transaction price less the sum of the observable stand-alone prices of other goods or services promised in the binding arrangement.

BC18-BC59. The IPSASB retained the methods of determining the stand-alone price in IFRS 15 as they were appropriate for the transactions that would be covered in [draft] ED 70. However, 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 'noncommercial basis').

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BC49-BC60. 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 [XX]~~ (ED ~~XX~~) 70

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Illustrative Examples – THESE ILLUSTRATIVE EXAMPLES ARE UNDER DEVELOPMENT

These examples accompany, but are not part of, [draft] ~~IPSAS [X]~~ (ED ~~XX~~)70.

Step 1: Identifying the Binding Arrangement

Illustrating the Consequences of Applying Paragraphs ~~840–1517~~, ~~4648~~ and ~~5153~~ and ~~AG113AG116–AG115AG118~~ 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).

Example 1—Collectability of the Consideration

- IE2. An entity, a real estate developer, enters into a binding arrangement with a purchaser for the sale of a building for CU1 million⁵. The purchaser intends to open a restaurant in the building. The building is located in an area where new restaurants face high levels of competition and the purchaser has little experience in the restaurant sector.
- IE3. The purchaser pays a non-refundable deposit of CU50,000 at the inception of the 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 defaults, the entity can repossess the building, but cannot seek further compensation from the purchaser, 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 obtains control of the building at the inception of the binding arrangement.
- IE4. In assessing whether the binding arrangement meets the criteria in paragraph ~~840~~ of [draft] IPSAS [X] (ED XX), the entity concludes that the criterion in paragraph ~~8(e)40(e)~~ of [draft] IPSAS [X] (ED XX) 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 purchaser's ability and intention to pay may be in doubt because of the following factors:
- (a) The purchaser intends to repay the loan (which has a significant balance) primarily from revenue derived from its restaurant business (which is a business facing significant risks because of high competition in the sector and the purchaser's limited experience);
 - (b) The purchaser lacks other revenue or assets that could be used to repay the loan; and
 - (c) The purchaser's liability under the loan is limited because the loan is non-recourse.
- IE5. Because the criteria in paragraph ~~840~~ of [draft] IPSAS [X] (ED XX) are not met, the entity applies paragraphs ~~1346 – 1517~~ of [draft] IPSAS [X] (ED XX) to determine the accounting for the non-refundable deposit of CU50,000. The entity observes that none of the events described in

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

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paragraph 1346 have occurred—that is, the entity has not received substantially all of the consideration and it has not terminated the binding arrangement. Consequently, in accordance with paragraph 1547, 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 840 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 1346 has occurred. The entity continues to assess the binding arrangement in accordance with paragraph ~~Error!~~ Reference source not found.15 to determine whether the criteria in paragraph 840 are subsequently met or whether the events in paragraph 1346 of [draft] IPSAS [X]–(ED XX) have occurred.

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

- IE6. 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 recognizes the full amount of revenue based on the terms of the arrangement with each household, notwithstanding its knowledge based on past experience.
- IE7. 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 the Stated Price—Implicit Price Concession

- IE8. An entity sells/provides 1,000 units of a prescription drug to a purchaser for promised consideration of CU1 million. This is the entity's first sale to a 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 purchaser 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 purchaser could help it to forge relationships with other potential purchasers in the region.
- IE9. When assessing whether the criterion in paragraph ~~8(e)40(e)~~ of [draft] IPSAS [X] (ED XX) is met, the entity also considers paragraphs ~~4648~~ and ~~51(b)53(b)~~ of [draft] IPSAS [X] (ED XX). 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 purchaser. 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.
- IE10. The entity considers the purchaser'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 purchaser. Consequently, the entity concludes that the criterion in paragraph ~~8(e)40(e)~~ of [draft] IPSAS [X]–(ED XX) is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the entity concludes that the other criteria in paragraph 840 of [draft] IPSAS [X] (ED XX) are also met. Consequently, the entity accounts for the

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binding arrangement with the purchaser in accordance with the requirements in [draft] IPSAS [X] (ED XX).

Example 3—Implicit Price Concession

- IE11. A government hospital, provides medical services to an uninsured patient in the emergency room. The hospital 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 provides the services immediately and, therefore, before the government hospital can determine whether the patient is committed to perform its obligations under the binding arrangement in exchange for the medical services provided. Consequently, the binding arrangement does not meet the criteria in paragraph ~~840~~ of [draft] IPSAS [X] (ED XX) and, in accordance with paragraph ~~Error! Reference source not found.45~~ of [draft] IPSAS [X] (ED XX), the hospital will continue to assess its conclusion based on updated facts and circumstances.
- IE12. After providing services, the hospital obtains additional information about the patient including a review of the services provided, standard rates for such services and the patient's ability and intention to pay the hospital for the services provided. During the review, the hospital notes its standard rate for the services provided in the emergency room is CU10,000. The hospital also reviews the patient's information and to be consistent with its policies designates the patient to a purchaser class based on the hospital's assessment of the patient's ability and intention to pay.
- IE13. Before reassessing whether the criteria in paragraph ~~840~~ of [draft] IPSAS [X] (ED XX) have been met, the hospital considers paragraphs ~~4648~~ and ~~51(b)53(b)~~ of [draft] IPSAS [X] (ED XX). Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the hospital concludes that the transaction price is not CU10,000 and, therefore, the promised consideration is variable. The hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The hospital estimates the variable consideration and determines that it expects to be entitled to CU1,000.
- IE14. In accordance with paragraph ~~8(e)40(e)~~ of [draft] IPSAS [X] (ED XX), the hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the hospital concludes it is probable that the hospital will collect CU1,000 (which is the estimate of variable consideration). In addition, on the basis of an assessment of the binding arrangement terms and other facts and circumstances, the hospital concludes that the other criteria in paragraph ~~840~~ of [draft] IPSAS [X] (ED XX) are also met. Consequently, the hospital accounts for the binding arrangement with the patient in accordance with the requirements in [draft] IPSAS [X] (ED XX).

Example 4—Reassessing the Criteria for Identifying a Binding Arrangement

- IE15. An entity licenses a patent to a purchaser in exchange for a usage-based royalty. At the inception of the binding arrangement, the binding arrangement meets all the criteria in paragraph ~~84040~~ of [draft] IPSAS [X] (ED XX) and the entity accounts for the binding arrangement with the purchaser in accordance with the requirements in [draft] IPSAS [X] (ED XX). The entity recognizes revenue when the purchaser's subsequent usage occurs in accordance with paragraph ~~AG113AG440~~ of [draft] IPSAS [X] (ED XX).

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- IE16. Throughout the first year of the binding arrangement, the purchaser provides quarterly reports of usage and pays within the agreed-upon period.
- IE17. During the second year of the binding arrangement, the purchaser continues to use the entity's patent, but the purchaser's financial condition declines. The purchaser's current access to credit and available cash on hand are limited. The entity continues to recognize revenue on the basis of the purchaser's usage throughout the second year. The purchaser 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 IPSAS 41, *Financial Instruments*.
- IE18. During the third year of the binding arrangement, the purchaser continues to use the entity's patent. However, the entity learns that the purchaser has lost access to credit and its major purchasers and thus the purchaser's ability to pay significantly deteriorates. The entity therefore concludes that it is unlikely that the purchaser 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 1244 of [draft] IPSAS [X] (ED XX), the entity reassesses the criteria in paragraph 840 of [draft] IPSAS [X] (ED XX) 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 recognize any further revenue associated with the purchaser's future usage of its patent. The entity accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

Modifications ~~to~~ of a Binding Arrangement

Illustrating the Consequences of Applying Paragraphs 1749–2022, 2123–2934, 5557–5759 and 8688–8994 of [draft] IPSAS [X] (ED XX)

- IE19. 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 ~~to~~ of a Binding Arrangement for Goods

- IE20. An entity promises to ~~sell~~ provide 120 products to a purchaser for CU12,000 (CU100 per product). The products are transferred to the purchaser 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, the binding arrangement is modified to require the delivery of an additional 30 products (a total of 150 identical products) to the purchaser. The additional 30 products were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone ~~Selling~~ Price

- IE21. When the binding arrangement is modified, the price of the modification to a binding arrangement 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 and the additional products are ~~distinct~~ separately identifiable (in accordance with paragraph 2628 of [draft] IPSAS [X] (ED XX)) from the original products.
- IE22. In accordance with paragraph 1924 of [draft] IPSAS [X] (ED XX), the modification to a binding arrangement for the additional 30 products is, in effect, a new and separate

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binding arrangement for future products that does not affect the accounting for the existing binding arrangement. The entity recognizes revenue of CU100 per product for the 120 products in the original binding arrangement and CU95 per product for the 30 products in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone ~~Selling~~ Price

- IE23. 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 purchaser discovers that the initial 60 products transferred to the purchaser contained minor defects that were unique to those delivered products. The entity promises a partial credit of CU15 per product to compensate the purchaser for the poor quality of those products. The entity and the purchaser 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 modification to a binding arrangement 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.
- IE24. At the time of modification, the entity 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 does not meet the conditions in paragraph 1924 of [draft] IPSAS [X] (ED XX) to be accounted for as a separate binding arrangement. Because the remaining products to be delivered are ~~distinct-separately identifiable~~ from those already transferred, the entity applies the requirements in paragraph 20(a)22(a) of [draft] IPSAS [X] (ED XX) and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.
- IE25. Consequently, the amount recognized as revenue for each of the remaining products is a blended price of CU93.33 $\{[(CU100 \times 60 \text{ products not yet transferred under the original binding arrangement}) + (CU80 \times 30 \text{ products to be transferred under the modification to a binding arrangement})] \div 90 \text{ remaining products}\}$.

Example 6—Change in the Transaction Price after a Modification ~~to of~~ a Binding Arrangement

- IE26. On July 1, 20X0, an entity promises to transfer two ~~distinct-separately identifiable~~ products to a purchaser. Product X transfers to the purchaser at the inception of the binding arrangement and Product Y transfers on March 31, 20X1. The consideration promised by the purchaser 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 recognized will not occur when the uncertainty is resolved.
- IE27. 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 8486 that requires allocation of the variable consideration to one but not both of the performance obligations.

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- IE28. When Product X transfers to the purchaser at the inception of the binding arrangement, the entity recognizes revenue of CU600.
- IE29. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer Product Z (in addition to the undelivered Product Y) to the purchaser on June 30, 20X1 and the price of the 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.
- IE30. The entity accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining Products Y and Z are distinct-separately identifiable from Product X, which had transferred to the purchaser 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 20(a)22(a) of [draft] IPSAS [X] (ED XX), 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 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).
- IE31. 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 recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 20(a)22(a) of [draft] IPSAS [X] (ED XX), the increase in the transaction price of CU40 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph ~~8994~~ of [draft] IPSAS [X] (ED XX), 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 binding arrangement. Consequently, the entity 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 before the modification to a binding arrangement, the change in the transaction price that is attributable to Product Y is allocated to the remaining performance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 20(a)22(a) of [draft] IPSAS [X] (ED XX) if that amount of variable consideration had been estimated and included in the transaction price at the time of the modification of a binding arrangement.
- IE32. The entity also allocates the CU20 increase in the transaction price for the modified 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 8486 that require allocation of the variable consideration to one but not both of the performance obligations. Consequently, the amount of the transaction price allocated to the performance obligations for Product Y and Product Z increases by CU10 to CU460 each.

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- IE33. On March 31, 20X1, Product Y is transferred to the purchaser and the entity recognizes revenue of CU460. On June 30, 20X1, Product Z is transferred to the purchaser and the entity recognizes revenue of CU460.

Example 7—Modification of a Binding Arrangement of Services

- IE34. An entity enters into a three-year binding arrangement with a purchaser to clean offices on a weekly basis. The purchaser promises to pay CU100,000 per year. The stand-alone selling price of the services at the inception of the binding arrangement is CU100,000 per year. The entity recognizes revenue of CU100,000 per year during the first two years of providing services. At the end of the second year, the binding arrangement is modified and the fee for the third year is reduced to CU80,000. In addition, the purchaser agrees to extend the 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 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 binding arrangement (i.e., the stand-alone selling price is 4 years × CU80,000 per year = CU320,000).
- IE35. At the inception of the binding arrangement, the entity assesses that each week of cleaning service is ~~distinct separately identifiable~~ in accordance with paragraph 2628 of [draft] IPSAS [X] (ED XX). Notwithstanding that each week of cleaning service is ~~distinct separately identifiable~~, the entity accounts for the binding arrangement for cleaning services as a single performance obligation in accordance with paragraph 21(b)23(b) of [draft] IPSAS [X] (ED XX). This is because the weekly cleaning services are a series of ~~distinct separately identifiable~~ services that are substantially the same and have the same pattern of transfer to the purchaser (the services transfer to the purchaser over time and use the same method to measure progress—that is, a time-based measure of progress).
- IE36. At the date of the modification, the entity assesses the remaining services to be provided and concludes that they are ~~distinct separately identifiable~~. 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).
- IE37. Consequently, the entity accounts for the modification in accordance with paragraph 20(a)22(a) of [draft] IPSAS [X] (ED XX) as a termination of the original binding arrangement and the creation of a new binding arrangement with consideration of CU280,000 for four years of cleaning service. The entity recognizes revenue of CU70,000 per year (CU280,000 ÷ 4 years) as the services are provided over the remaining four years.

Example 8—Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

- IE38. An entity, a construction company, enters into a binding arrangement to construct a commercial building for a purchaser on purchaser-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 34(b)36(b) of [draft] IPSAS [X] (ED XX) because the purchaser

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controls the building during construction. At the inception of the of the binding arrangement, the entity expects the following:

CU	
Transaction price	1,000,000
Expected costs	700,000
Expected surplus (30%)	300,000

- IE39. At the inception of the binding arrangement, 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 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 binding arrangements.
- IE40. 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 ~~5557~~—~~5759~~ of [draft] IPSAS [X]—(ED XX). Consequently, the cumulative revenue and costs recognized for the first year are as follows:

CU	
Revenue	600,000
Costs	420,000
Surplus	180,000

- IE41. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by 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 for achieving the CU200,000 bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, 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 recognized in accordance with paragraph ~~5557~~ of [draft] IPSAS [X]—(ED XX) and includes the CU200,000 in the transaction price. In assessing the modification to a binding arrangement, the entity evaluates paragraph ~~26(b)28(b)~~ of [draft] IPSAS [X]—(ED XX) and concludes (on the basis of the factors in paragraph ~~2830~~ of [draft] IPSAS [X]—(ED XX)) that the remaining goods and services to be provided using the modified binding arrangement are not ~~distinct-separately identifiable~~ from the goods and

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services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single performance obligation.

- IE42. Consequently, the entity accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph ~~20(b)22(b)~~ of [draft] IPSAS [X] (ED XX). 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 recognizes additional revenue of CU91,200 [(51.2 per cent complete × CU1,350,000 modified transaction price) – CU600,000 revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment.

Example 9—Unapproved Change in Scope and Price

- IE43. An entity enters into a binding arrangement with a purchaser to construct a building on purchaser-owned land. The binding arrangement states that the purchaser will provide the entity with access to the land within 30 days of inception of the binding arrangement. However, the entity was not provided access until 120 days after inception of the binding arrangement because of storm damage to the site that occurred after inception of the binding arrangement. The binding arrangement specifically identifies any delay (including force majeure) in the entity's access to purchaser-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 and prepares a claim. The purchaser initially disagreed with the entity's claim.
- IE44. The entity assesses the legal basis of the claim and determines, on the basis of the underlying terms of the binding arrangement, that it has enforceable rights. Consequently, it accounts for the claim as a modification to a binding arrangement in accordance with paragraphs ~~1749 – 2022~~ of [draft] IPSAS [X] (ED XX). The modification does not result in any additional goods and services being provided to the purchaser. In addition, all of the remaining goods and services after the modification are not ~~distinct separately identifiable~~ and form part of a single performance obligation. Consequently, the entity accounts for the modification in accordance with paragraph ~~20(b)22(b)~~ of [draft] IPSAS [X] (ED XX) 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 in paragraphs ~~5557 – 5759~~ of [draft] IPSAS [X] (ED XX) when estimating the transaction price.

Step 2: Identifying Performance Obligations

Illustrating the Consequences of Applying Paragraphs ~~2123 – 2934~~ of [draft] IPSAS [X] (ED XX)

- IE45. The following examples illustrate the process for identifying performance obligations. The examples are not based on actual transactions.

Example 10—Goods and Services are not ~~Distinct Separately Identifiable~~

Case A—Significant Integration Service

- IE46. An entity enters into a binding arrangement to build a hospital for a purchaser. 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.

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- IE47. The promised goods and services are capable of being ~~distinct~~ separately identifiable in accordance with paragraph ~~26(a)28(a)~~ of [draft] IPSAS [X] (ED XX). That is, the purchaser can generate economic benefits 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-provides many of these goods and services separately to other purchasers. In addition, the purchaser could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.
- IE48. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX) (on the basis of the factors in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX). 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 purchaser has entered into a binding arrangement.
- IE49. Because both criteria in paragraph ~~2628~~ of [draft] IPSAS [X] (ED XX) are not met, the goods and services are not ~~distinct~~ separately identifiable. The entity accounts for all of the goods and services in the binding arrangement as a single performance obligation.

Case B—Significant Integration Service

- IE50. An entity enters into a binding arrangement with a purchaser that will result in the delivery of multiple units of a highly complex, specialized device. The terms of the binding arrangement require the entity to establish a manufacturing process in order to produce the units. The specifications are unique to the purchaser, based on a custom design that is owned by the purchaser and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The entity is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.
- IE51. The entity assesses the promises in the binding arrangement and determines that each of the promised devices is capable of being ~~distinct~~ separately identifiable in accordance with paragraph ~~26(a)28(a)~~ of [draft] IPSAS [X] (ED XX) because the purchaser can generate economic benefits or receive service potential from each device on its own. This is because each unit can function independently of the other units.
- IE52. 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 has entered into a binding arrangement in accordance with the purchaser's specifications. The entity considers that it is responsible for overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting 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 ~~26(b)28(b)~~ and paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX). In this case, the manufacturing process provided by the entity is specific to its binding arrangement with the 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, specialized devices such that the entity's activities are highly interdependent and highly interrelated. Because the criterion in

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paragraph ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX) is not met, the goods and services that will be provided by the entity are not separately identifiable and, therefore, are not ~~distinct~~ sufficiently specific. The entity accounts for all of the goods and services promised in the binding arrangement as a single performance obligation.

Example 11—Determining whether Goods or Services are Distinct Separately Identifiable

Case A—Distinct Separately Identifiable Goods or Services

- IE53. An entity, a software developer, enters into a binding arrangement with a purchaser to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells-provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.
- IE54. The entity assesses the goods and services promised to the purchaser to determine which goods and services are ~~distinct~~ separately identifiable in accordance with paragraph ~~2628~~ of [draft] IPSAS [X] (ED XX). 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 purchaser can generate economic benefits or ~~receive~~ service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the entity concludes that the purchaser can generate economic benefits 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 ~~26(a)28(a)~~ of [draft] IPSAS [X] (ED XX) is met.
- IE55. The entity also considers the principle and the factors in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX) and determines that the promise to transfer each good and service to the purchaser is separately identifiable from each of the other promises (thus the criterion in paragraph ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX) is met). In reaching this determination, the entity considers that, although it integrates the software into the purchaser's system, the installation services do not significantly affect the purchaser's ability to use and generate economic benefits or ~~receive~~ service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the purchaser's ability to use and benefit or receive service potential from the software license during the license period. The entity further observes that none of the promised goods or services significantly modify or customize 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 fulfill its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.
- IE56. On the basis of this assessment, the entity identifies four performance obligations in the binding arrangement for the following goods or services:
- (a) The software license;
 - (b) An installation service;

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- (c) (Software updates; and
- (d) Technical support.

IE57. The entity applies paragraphs ~~3032~~ – ~~3739~~ of [draft] IPSAS [X] (ED XX) 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 license in accordance with paragraph ~~AG107~~~~AG104~~ of [draft] IPSAS [X] (ED XX) (see Example 54 in paragraphs ~~IE318~~~~IE320~~ – ~~IE319~~~~IE324~~).

Case B—Significant Customization

IE58. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the purchaser. The customized installation service can be provided by other entities.

IE59. The entity assesses the goods and services promised to the purchaser to determine which goods and services are ~~distinct—separately identifiable~~ in accordance with paragraph ~~2628~~ of [draft] IPSAS [X] (ED XX). The entity first assesses whether the criterion in paragraph ~~26(a)28(a)~~ has been met. For the same reasons as in Case A, the entity determines that the software license, installation, software updates and technical support each meet that criterion. The entity next assesses whether the criterion in paragraph ~~26(b)28(b)~~ has been met by evaluating the principle and the factors in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX). The entity observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the entity is using the license and the customized installation service as inputs to produce the combined output (ie a functional and integrated software system) specified in the binding arrangement (see paragraph ~~28(a)30(a)~~ of [draft] IPSAS [X] (ED XX). The software is significantly modified and customized by the service (see paragraph ~~28(b)30(b)~~ of [draft] IPSAS [X] (ED XX). Consequently, the entity determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX) is not met. Thus, the software license and the customized installation service are not ~~distinct~~~~separately identifiable~~.

IE60. On the basis of the same analysis as in Case A, the entity concludes that the software updates and technical support are ~~distinct—separately identifiable~~ from the other promises in the binding arrangement.

IE61. On the basis of this assessment, the entity identifies three performance obligations in the binding arrangement for the following goods or services:

- (a) Software customization (which comprises the license for the software and the customized installation service);
- (b) Software updates; and
- (c) Technical support.

IE62. The entity applies paragraphs ~~3032~~ – ~~3739~~ of [draft] IPSAS [X] (ED XX) to determine whether each performance obligation is satisfied at a point in time or over time.

Case C—Promises are Separately Identifiable (Installation)

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- IE63. An entity enters into a binding arrangement with a purchaser to ~~sell~~ provide a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.
- IE64. The entity identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The entity assesses the criteria in paragraph ~~2628~~ of [draft] IPSAS [X] (ED XX) to determine whether each promised good or service is ~~distinct~~ separately identifiable. The entity determines that the equipment and the installation each meet the criterion in paragraph ~~26(a)~~ 28(a) of [draft] IPSAS [X] (ED XX). The purchaser can generate economic benefits 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 also can generate economic benefits or ~~receive~~ service potential from the installation services together with other resources that the purchaser will already have obtained from the entity (i.e., the equipment).
- IE65. 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 ~~26(b)~~ 28(b) of [draft] IPSAS [X] (ED XX). The entity considers the principle and the factors in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX) in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX) contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:
- (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 fulfill 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) The entity's installation services will not significantly customize or significantly modify the equipment.
 - (c) Although the purchaser can generate economic benefits 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 fulfill its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.
- IE66. On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:
- (i) The equipment; and
 - (ii) Installation services.
- IE67. The entity applies paragraphs ~~3032~~ – ~~3739~~ of [draft] IPSAS [X] (ED XX) to determine whether each performance obligation is satisfied at a point in time or over time.

Case D—Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

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- IE68. Assume the same facts as in Case C, except that the purchaser is required to use the entity's installation services in the binding arrangement.
- IE69. The binding arrangement requirement to use the entity's installation services does not change the evaluation of whether the promised goods and services are ~~distinct separately identifiable~~ in this case. This is because the 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 purchaser. Although the purchaser is required to use the entity's installation services, the equipment and the installation services are capable of being ~~distinct separately identifiable~~ (i.e., they each meet the criterion in paragraph ~~26(a)28(a)~~ of [draft] IPSAS [X] (ED XX)) 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 ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX). The entity's analysis in this regard is consistent with that in Case C.

Case E—Promises are Separately Identifiable (Consumables)

- IE70. An entity enters into a binding arrangement with a purchaser to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the entity, but are ~~sold~~ provided separately by the entity.
- IE71. The entity determines that the purchaser can generate economic benefits or ~~receive~~ service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph ~~2729~~ of [draft] IPSAS [X] (ED XX), because they are regularly ~~sold-provided~~ separately by the entity (i.e., through refill orders to purchasers that previously purchased the equipment). The purchaser can generate economic benefits or ~~receive~~ service potential from the consumables that will be delivered under the binding arrangement together with the delivered equipment that is transferred to the purchaser initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being ~~distinct separately identifiable~~ in accordance with paragraph ~~26(a)28(a)~~ of [draft] IPSAS [X] (ED XX).
- IE72. 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 ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX). In determining that the equipment and the consumables are not inputs to a combined item in this binding 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 customized 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 purchaser can generate economic benefits or ~~receive~~ service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the entity would be able to fulfill each of its promises in the binding arrangement independently of the other. That is, the entity would be able to fulfill its promise to transfer the equipment even if the purchaser did not purchase any consumables and would be able to fulfill its promise to provide the consumables, even if the purchaser acquired the equipment separately.

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IE73. On the basis of this assessment, the entity identifies two performance obligations in the binding arrangement for the following goods or services:

- (a) The equipment; and
- (b) The consumables.

IE74. The entity applies paragraphs ~~3032~~ – ~~3739~~ of [draft] IPSAS [X] (ED XX) to determine whether each performance obligation is satisfied at a point in time or over time.

Example 12—Explicit and Implicit Promises in a Binding Arrangement

IE75. An entity manufactures and ~~sells~~~~provides~~ a product to a distributor (~~ie~~~~.~~~~e.~~ its purchaser) who will then resell it to an end purchaser.

Case A—Explicit Promise of Service

IE76. In the binding ~~.~~arrangement with the purchaser, the entity promises to provide maintenance services for no additional consideration (~~ie~~~~.~~~~e.~~ 'free') to any party (~~ie~~~~.~~~~e.~~ the end purchaser) that purchases the product from the purchaser. The entity outsources the performance of the maintenance services to the purchaser and pays the purchaser an agreed-upon amount for providing those services on the entity's behalf. If the end purchaser does not use the maintenance services, the entity is not obliged to pay the purchaser.

IE77. The binding arrangement with the purchaser 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. The entity assesses whether each good or service is ~~distinct-separately~~ ~~identifiable~~ in accordance with paragraph ~~2628~~ of [draft] IPSAS [X] (ED XX). The entity determines that both the product and the maintenance services meet the criterion in paragraph ~~26(a)28(a)~~ of [draft] IPSAS [X] (ED XX). The entity regularly ~~sells-provides~~ the product on a stand-alone basis, which indicates that the purchaser can ~~generate economic~~ ~~benefits~~ or ~~receive~~ service potential from the product on its own. The purchaser can ~~generate economic~~ ~~benefits~~ or ~~receive~~ service potential from the maintenance services together with a resource the purchaser already has obtained from the entity (~~ie~~~~.~~~~e.~~ the product).

IE78. The entity further determines that its promises to transfer the product and to provide the maintenance services are separately identifiable (in accordance with paragraph ~~26(b)28(b)~~ of [draft] IPSAS [X] (ED XX) on the basis of the principle and the factors in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX). The product and the maintenance services are not inputs to a combined item in the binding arrangement. The entity is not providing a significant integration service because the presence of the product and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the product nor the services modify or customize the other. Lastly, the product and the maintenance services are not highly interdependent or highly interrelated because the entity would be able to fulfill ~~each~~ of the promises in the binding arrangement independently of its efforts to fulfill ~~the other~~ (ie the entity would be able to transfer the product even if the purchaser declined maintenance services and would be able to provide maintenance services in relation to products ~~sold-provided~~ previously through other distributors). The entity also observes, in applying the principle in paragraph ~~2830~~ of [draft] IPSAS [X] (ED XX), that the entity's promise to provide maintenance is not necessary for the product to continue to provide significant ~~economic~~ ~~benefits~~ or service potential to the purchaser.

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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 binding arrangement.

Case B—Implicit Promise of Service

- IE79. The entity has historically provided maintenance services for no additional consideration (ie 'free') to end purchasers that purchase the entity's product from the purchaser. The entity does not explicitly promise maintenance services during negotiations with the distributor and the final binding arrangement between the entity and the distributor does not specify terms or conditions for those services.
- IE80. However, on the basis of its customary practice, the entity determines at the inception of the binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the purchaser. That is, the entity's past practices of providing these services create valid expectations of the entity's purchasers (ie the distributor and end purchasers) in accordance with paragraph 2325 of [draft] IPSAS [X] (ED XX). Consequently, the entity assesses whether the promise of maintenance services is a performance obligation. For the same reasons as in Case A, the entity determines that the product and maintenance services are separate performance obligations.

Case C—Services are not a Promised Service

- IE81. In the binding arrangement with the purchaser, 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 practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The entity transfers control of the product to the purchaser and, therefore, the binding arrangement is completed. However, before the sale to the end purchaser, the entity makes an offer to provide maintenance services to any party that purchases the product from the purchaser for no additional promised consideration.
- IE82. The promise of maintenance is not included in the binding arrangement between the entity and the purchaser at the inception of the binding arrangement. That is, in accordance with paragraph 2325 of [draft] IPSAS [X] (ED XX), the entity does not explicitly or implicitly promise to provide maintenance services to the purchaser or the end 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 19 *Provisions, Contingent Liabilities and Contingent Assets*.
- IE83. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with purchasers the entity would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Step 5: Performance Obligations Satisfied Over Time

Illustrating the Consequences of Applying Paragraphs 3436 - 3739 and AG48AG45 - AG59AG56 of [draft] IPSAS [X] (ED XX).

- IE84. 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.

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Example 13—Purchaser Simultaneously Receives and Consumes the Economic Benefits or Service Potential

- IE85. An entity enters into a binding arrangement to provide monthly payroll processing services to a purchaser for one year.
- IE86. The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph ~~21(b)23(b)~~ of [draft] IPSAS [X] (ED XX). The performance obligation is satisfied over time in accordance with paragraph ~~34(a)36(a)~~ of [draft] IPSAS [X] (ED XX) because the purchaser simultaneously receives and consumes the economic 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 consumes the economic 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 recognizes revenue over time by measuring its progress towards complete satisfaction of that performance obligation in accordance with paragraphs ~~3840 – 4446~~ and ~~AG60AG57 – AG65AG62~~ of [draft] IPSAS [X] (ED XX).

Example 14—Assessing Alternative Use and Right to Payment

- IE87. An entity enters into a binding arrangement with a purchaser to provide a consulting service that results in the entity providing a professional opinion to the purchaser. The professional opinion relates to facts and circumstances that are specific to the purchaser. If the purchaser were to terminate the binding arrangement for consulting services for reasons other than the entity's failure to perform as promised, the binding arrangement requires the purchaser to compensate the entity for its costs incurred plus a 15 per cent margin. The 15 per cent margin approximates the margin that the entity earns from similar binding arrangements.
- IE88. The entity considers the criterion in paragraph ~~34(a)36(a)~~ of [draft] IPSAS [X] (ED XX) and the requirements in paragraphs ~~AG49AG46~~ and ~~AG50AG47~~ of [draft] IPSAS [X] (ED XX) to determine whether the purchaser simultaneously receives and consumes the economic benefits or service potential of the entity's performance. If the entity were to be unable to satisfy its obligation and the 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 economic benefits or service potential of any work in progress performed by the entity. The nature of the professional opinion is such that the purchaser will ~~generate economic~~receive the benefits or service potential of the entity's performance only when the purchaser receives the professional opinion. Consequently, the entity concludes that the criterion in paragraph ~~34(a)36(a)~~ of [draft] IPSAS [X] (ED XX).
- IE89. However, the entity's performance obligation meets the criterion in paragraph ~~34(c)36(c)~~ of [draft] IPSAS [X] (ED XX) and is a performance obligation satisfied over time because of both of the following factors:
- (a) In accordance with paragraphs ~~3537~~ and ~~AG52AG49 – AG54AG51~~ of [draft] IPSAS [X] (ED XX), 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

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circumstances that are specific to the purchaser. Therefore, there is a practical limitation on the entity's ability to readily direct the asset to another purchaser.

- (b) In accordance with paragraphs [3638](#) and [AG55AG52 – AG59AG56](#) of [draft] IPSAS [X] (ED XX), 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 margin in other binding arrangements.

IE90. Consequently, the entity recognizes revenue over time by measuring the progress towards complete satisfaction of the performance obligation in accordance with paragraphs [3840 – 4446](#) and [AG60AG57–AG65AG62](#) of [draft] IPSAS [X] (ED XX).

Example 15—Asset has no Alternative Use to the Entity

- IE91. An entity enters into a binding arrangement with a purchaser, a government agency, to build a specialized satellite. The entity builds satellites for various purchasers, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each purchaser's needs and the type of technology that is incorporated into the satellite.
- IE92. At the inception of the binding arrangement, the entity assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph [3436](#) of [draft] IPSAS [X] (ED XX).
- IE93. 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 binding arrangement does not preclude the entity from directing the completed satellite to another purchaser, the entity would incur significant costs to rework the design and function of the satellite to direct that asset to another purchaser. Consequently, the asset has no alternative use to the entity (see paragraphs [34\(c\)36\(e\)](#), [3537](#) and [AG52AG49–AG54AG51](#) of [draft] IPSAS [X] (ED XX) because the purchaser-specific design of the satellite limits the entity's practical ability to readily direct the satellite to another purchaser.
- IE94. For the entity's performance obligation to be satisfied over time when building the satellite, paragraph [34\(c\)36\(e\)](#) of [draft] IPSAS [X] (ED XX) 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 for Performance Completed to Date

- IE95. An entity enters into a binding arrangement with a purchaser to build an item of equipment. The payment schedule in the binding arrangement specifies that the purchaser must make an advance payment at the inception of the binding arrangement inception of 10 per cent of the agreed price of the binding arrangement, regular payments throughout the construction period (amounting to 50 per cent of the agreed price of the binding arrangement) and a final payment of 40 per cent of the agreed price of the binding arrangement 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 purchaser terminates the binding arrangement, the entity is entitled only to retain any progress payments received from the purchaser. The entity has no further rights to compensation from the purchaser.
- IE96. At the inception of the binding arrangement, the entity assesses whether its performance obligation to build the equipment is a performance obligation satisfied over time in accordance with paragraph [3436](#) of [draft] IPSAS [X] (ED XX).

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- IE97. 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 ~~34(c)36(e)~~, ~~3638~~ and ~~AG55AG52 – AG59AG56~~ of [draft] IPSAS [X]–(ED XX) if the purchaser were to terminate the binding arrangement for reasons other than the entity's failure to perform as promised. Even though the payments made by the purchaser are non-refundable, the cumulative amount of those payments is not expected, at all times throughout the binding arrangement, to at least correspond to the amount that would be necessary to compensate the entity for performance completed to date. This is because at various times during construction the cumulative amount of consideration paid by the purchaser 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.
- IE98. 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 ~~34(c)36(e)~~ of [draft] IPSAS [X] (ED XX). 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 ~~34(a)36(a)~~ or (b) of [draft] IPSAS [X] (ED XX) 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 ~~3739~~ of [draft] IPSAS [X]–(ED XX).

Example 17—Assessing Whether a Performance Obligation is Satisfied at a Point in Time or Over Time

- IE99. An entity is developing a multi-unit residential complex. A purchaser enters into a 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 Enforceable Right to Payment for Performance Completed to Date

- IE100. The customer pays a deposit upon entering into the binding arrangement and the deposit is refundable only if the entity fails to complete construction of the unit in accordance with the binding arrangement. The remainder of the binding arrangement price is payable on completion of the binding arrangement when the customer obtains physical possession of the unit. If the customer defaults on the binding arrangement before completion of the unit, the entity only has the right to retain the deposit.
- IE101. At binding arrangement inception, the entity applies paragraph ~~34(c)36(e)~~ of [draft] IPSAS [X] (ED XX) 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 ~~34(c)36(e)~~ of [draft] IPSAS [X] (ED XX). Instead, the entity accounts for the sale of the unit as a performance obligation satisfied at a point in time in accordance with paragraph ~~3739~~ of [draft] IPSAS [X]–(ED XX).

Case B—Entity has an Enforceable Right to Payment for Performance Completed to Date

- IE102. The purchaser pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the unit. The binding arrangement has substantive

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terms that preclude the entity from being able to direct the unit to another purchaser. In addition, the purchaser does not have the right to terminate the binding arrangement unless the entity fails to perform as promised. If the purchaser 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 if it completes the construction of the unit. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its obligations under the binding arrangement.

- IE103. At the inception of the binding arrangement, the entity applies paragraph ~~34(c)36(e)~~ of [draft] IPSAS [X] (ED XX) to determine whether its promise to construct and transfer the unit to the purchaser 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 precludes the entity from transferring the specified unit to another purchaser. The entity does not consider the possibility of a termination of a binding arrangement in assessing whether the entity is able to direct the asset to another purchaser.
- IE104. The entity also has a right to payment for performance completed to date in accordance with paragraphs ~~3638~~ and ~~AG55AG52 – AG59AG56~~ of [draft] IPSAS [X] (ED XX). This is because if the purchaser were to default on its obligations, the entity would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.
- IE105. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to payment for performance completed to date. Consequently, the criteria in paragraph ~~34(c)36(e)~~ of [draft] IPSAS [X] (ED XX) are met and the entity has a performance obligation that it satisfies over time. To recognize revenue for that performance obligation satisfied over time, the entity measures its progress towards complete satisfaction of its performance obligation in accordance with paragraphs ~~3840–4446~~ and ~~AG60AG57 – AG65AG62~~ of [draft] IPSAS [X] (ED XX).
- IE106. In the construction of a multi-unit residential complex, the entity may have many binding arrangements with individual purchasers for the construction of individual units within the complex. The entity would account for each binding arrangement separately. However, depending on the nature of the construction, the entity's performance in undertaking the initial construction works (*ie i.e.*, the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its performance obligations in each binding arrangement.

Case C—Entity has an Enforceable Right to Payment for Performance Completed to Date

- IE107. The same facts as in Case B apply to Case C, except that in the event of a default by the purchaser, either the entity can require the purchaser to perform as required under the binding arrangement or the entity can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.
- IE108. Notwithstanding that the entity could cancel the binding arrangement (in which case the purchaser's obligation to the entity would be limited to transferring control 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 binding arrangement. The fact that the entity may choose to cancel the binding arrangement in the event the purchaser defaults on its obligations would not affect that assessment (see paragraph ~~AG57AG54~~ of [draft] IPSAS [X] (ED XX), provided that the entity's rights to require the

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purchaser to continue to perform as required under the binding arrangement (~~ie~~ i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

Illustrating the Consequences of Applying Paragraphs ~~3840-4446~~ and ~~AG65~~AG62 of [draft] IPSAS [X] (ED XX).

IE109. 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 Progress when Making Goods or Services Available

IE110. An entity, an owner and manager of health clubs, enters into a binding arrangement with a purchaser for one year of access to any of its health clubs. The purchaser has unlimited use of the health clubs and promises to pay CU100 per month.

IE111. The entity determines that its promise to the purchaser is to provide a service of making the health clubs available for the purchaser to use as and when the purchaser wishes. This is because the extent to which the purchaser uses the health clubs does not affect the amount of the remaining goods and services to which the purchaser is entitled. The entity concludes that the purchaser simultaneously receives and consumes the economic 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 ~~34(a)36(a)~~ of [draft] IPSAS [X] (ED XX).

IE112. The entity also determines that the purchaser generates economic benefits or ~~receives~~ service potential from the entity's service of making the health clubs available evenly throughout the year. (That is, the purchaser benefits from having the health clubs available, regardless of whether the purchaser 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 recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Example 19—Uninstalled Materials

IE113. In November, 20X2, an entity enters into a binding arrangement with a 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 paragraphs ~~AG80AG77~~ – ~~AG88~~AG85 of [draft] IPSAS [X] (ED XX), because it obtains control of the elevators before they are transferred to the purchaser.

IE114. A summary of the transaction price and expected costs is as follows:

CU	
Transaction price	5,000,000
Expected costs:	
Elevators	1,500,000

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Other costs	<u>2,500,000</u>
Total expected costs	<u>4,000,000</u>

- IE115. 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 [AG65AG62](#) of [draft] IPSAS [X] (ED XX). The purchaser 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.
- IE116. 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 [AG65AG62](#) of [draft] IPSAS [X] (ED XX), 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 recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (ie at a zero margin).
- IE117. As of December 31, 20X2 the entity observes that:
- (a) Other costs incurred (excluding elevators) are CU500,000; and
 - (b) Performance is 20 per cent complete (ie CU500,000 ÷ CU2,500,000).

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IE118. Consequently, at December 31, 20X2, the entity recognizes the following:

	CU
Revenue	2,200,000 ⁶
Cost of goods sold	2,000,000 ⁷
Profit	200,000

Step 3: Determining the Transaction Price

Variable Consideration

Illustrating the Consequences of Applying Paragraphs 4954 - 5355 of [draft] IPSAS [X] (ED XX).

IE119. The following examples illustrate the requirements for identifying variable consideration. The examples are not based on actual transactions.

Example 20—Penalty Gives Rise to Variable Consideration

IE120. An entity enters into a binding arrangement with a purchaser to build an asset for CU1 million. In addition, the terms of the binding arrangement include a penalty of CU100,000 if the construction is not completed within three months of a date specified in the binding arrangement.

IE121. The entity concludes that the consideration promised in the binding arrangement includes a fixed amount of CU900,000 and a variable amount of CU100,000 (arising from the penalty).

IE122. The entity estimates the variable consideration in accordance with paragraphs 4954 – 5355 of [draft] IPSAS [X] (ED XX) and considers the requirements in paragraphs 5557 – 5759 of [draft] IPSAS [X] (ED XX) on constraining estimates of variable consideration.

Example 21—Estimating Variable Consideration

IE123. An entity enters into a binding arrangement with a purchaser to build a 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 March 31, 20X7 that the asset is incomplete, the promised consideration is reduced by CU10,000. For each day before March 31, 20X7 that the asset is complete, the promised consideration increases by CU10,000.

IE124. 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 binding arrangement. If the asset receives a specified rating, the entity will be entitled to an incentive bonus of CU150,000.

IE125. 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 5254 of [draft] IPSAS [X] (ED XX):

⁶ 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.)

⁷ Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

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- (a) 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) 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.

IE126. The entity considers the requirements in paragraphs 5557 – 5759 of [draft] IPSAS [X] (ED XX) 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 Estimates of Variable Consideration

Illustrating the Consequences of Applying Paragraphs 5456, 5557 – 5759; AG66AG63 – AG73AG70 and 8385 – 8587 of [draft] IPSAS [X] (ED XX).

IE127. 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 Return

IE128. An entity enters into 100 binding arrangements with purchasers. Each binding arrangement 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 practice is to allow a purchaser to return any unused product within 30 days and receive a full refund. The entity's cost of each product is CU60.

IE129. The entity applies the requirements in [draft] IPSAS [X] (ED XX) to the portfolio of 100 binding arrangements because it reasonably expects that, in accordance with paragraph 35, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual binding arrangements within the portfolio.

IE130. Because the binding arrangement allows a purchaser to return the products, the consideration received from the purchaser 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 52(a)54(a) of [draft] IPSAS [X] (ED XX) 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 97 products will not be returned.

IE131. The entity also considers the requirements in paragraphs 5557 – 5759 of [draft] IPSAS [X] (ED XX) 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 5658 of [draft] IPSAS [X] (ED XX) and determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and purchaser 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

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amount of revenue recognized (ie CU9,700) will not occur as the uncertainty is resolved (ie over the return period).

- IE132. The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a surplus.
- IE133. Upon transfer of control of the 100 products, the entity does not recognize revenue for the three products that it expects to be returned. Consequently, in accordance with paragraphs ~~5456~~ and ~~AG67AG64~~ of [draft] IPSAS [X] (ED XX), the entity recognizes the following:
- (a) Revenue of CU9,700 (CU100 × 97 products not expected to be returned);
 - (b) A refund liability of CU300 (CU100 refund × 3 products expected to be returned); and
 - (c) An asset of CU180 (CU60 × 3 products for its right to recover products from purchasers on settling the refund liability).

Example 23—Price Concessions

- IE134. An entity enters into a binding arrangement with a purchaser, a distributor, on December 1, 20X7. At the inception of the binding arrangement, the entity transfers 1,000 products for a price stated in the binding arrangement of CU100 per product (total consideration is CU100,000). Payment from the purchaser is due when the purchaser ~~sells~~ provides the products to the end purchasers. The entity's purchaser generally ~~sells~~ provides the products within 90 days of obtaining them. Control of the products transfers to the purchaser on December 1, 20X7.
- IE135. On the basis of its past practices and to maintain its relationship with the purchaser, the entity anticipates granting a price concession to its purchaser because this will enable the purchaser to discount the product and thereby move the product through the distribution chain. Consequently, the consideration in the binding arrangement is variable.

Case A—Estimate of Variable Consideration is not Constrained

- IE136. 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.
- IE137. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph ~~52(a)~~ ~~54(a)~~ of [draft] IPSAS [X] (ED XX) 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).
- IE138. The entity also considers the requirements in paragraphs ~~5557~~ – ~~5759~~ of [draft] IPSAS [X] (ED XX) 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 ~~5658~~ of [draft] IPSAS [X] (ED XX) 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

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revenue 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 recognizes CU80,000 as revenue when the products are transferred on December 1, 20X7.

Case B—Estimate of Variable Consideration is Constrained

- IE139. 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.
- IE140. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph ~~52(a)~~~~54(a)~~ of [draft] IPSAS [X] (ED XX) 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).
- IE141. The entity also considers the requirements in paragraphs ~~5557~~ – ~~5759~~ of [draft] IPSAS [X] (ED XX) 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 ~~5658~~ of [draft] IPSAS [X] (ED XX) 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 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 recognized will not occur if the entity includes CU50,000 in the transaction price (CU100 sales price and a 50 per cent price concession) and therefore, recognizes revenue at that amount. Therefore, the entity 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 ~~5860~~ of [draft] IPSAS [X] (ED XX).

Example 24—Volume Discount Incentive

- IE142. An entity enters into a binding arrangement with a purchaser on January 1, 20X8 to ~~sell~~~~provide~~ Product A for CU100 per unit. If the purchaser purchases more than 1,000 units of Product A in a calendar year, the binding arrangement specifies that the price per unit is retrospectively reduced to CU90 per unit. Consequently, the consideration in the binding arrangement is variable.
- IE143. For the first quarter ended March 31, 20X8, the entity ~~sells~~~~provides~~ 75 units of Product A to the purchaser. The entity estimates that the purchaser's purchases will not exceed the 1,000-unit threshold required for the volume discount in the calendar year.

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- IE144. The entity considers the requirements in paragraphs ~~5557~~ – ~~5759~~ of binding arrangement on constraining estimates of variable consideration, including the factors in paragraph ~~5658~~ of [draft] IPSAS [X] (ED XX). 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 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 recognizes revenue of CU7,500 (75 units × CU100 per unit) for the quarter ended March 31, 20X8.
- IE145. In May, 20X8, the entity's purchaser acquires another company and in the second quarter ended June 30, 20X8 the entity ~~sells~~ provides an additional 500 units of Product A to the purchaser. In the light of the new fact, the entity estimates that the purchaser'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.
- IE146. Consequently, the entity recognizes revenue of CU44,250 for the quarter ended 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~~ provided for the quarter ended March 31, 20X8 (see paragraphs ~~8688~~ and ~~8789~~ of [draft] IPSAS [X] (ED XX)).

Example 25—Management Fees Subject to the Constraint

- IE147. On January 1, 20X8, an entity enters into a binding arrangement 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 are variable consideration.
- IE148. The entity accounts for the services as a single performance obligation in accordance with paragraph ~~21(b)23(b)~~ of [draft] IPSAS [X] (ED XX), because it is providing a series of ~~distinct separately identifiable~~ services that are substantially the same and have the same pattern of transfer (the services transfer to the purchaser over time and use the same method to measure progress—that is, a time-based measure of progress).
- IE149. At the inception of the binding arrangement, the entity considers the requirements in paragraphs ~~4954~~ – ~~5355~~ of [draft] IPSAS [X] (ED XX) on estimating variable consideration and the requirements in paragraphs ~~5557~~ – ~~5759~~ of [draft] IPSAS [X] (ED XX) on constraining estimates of variable consideration, including the factors in paragraph ~~5658~~ of [draft] IPSAS [X] (ED XX). 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 binding arrangements, that experience is of little predictive value in determining the future performance of the market. Therefore, at the inception of the binding arrangement, the entity cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognized would not occur if the entity included its estimate of the management fee or the incentive fee in the transaction price.

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- IE150. 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 inception of the binding arrangement—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 recognized would not occur if the entity included its estimate of the incentive fee in the transaction price. At March 31, 20X8, the client's assets under management are CU100 million. Therefore, the resulting quarterly management fee and the transaction price is CU2 million.
- IE151. At the end of each quarter, the entity allocates the quarterly management fee to the distinct separately identifiable services provided during the quarter in accordance with paragraphs ~~83(b)85(b)~~ and ~~8486~~ of [draft] IPSAS [X] (ED XX). This is because the fee relates specifically to the entity's efforts to transfer the services for that quarter, which are distinct separately identifiable from the services provided in other quarters, and the resulting allocation will be consistent with the allocation objective in paragraph ~~7274~~ of [draft] IPSAS [X] (ED XX). Consequently, the entity recognizes CU2 million as revenue for the quarter ended March 31, 20X8.

The Existence of a Significant Financing Component in the Binding Arrangement

Illustrating the Consequences of Applying Paragraphs ~~5557 - 5759~~, ~~5964 - 6466~~ and ~~AG66AG63 - AG73AG70~~ of [draft] IPSAS [X] (ED XX).

- IE152. 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.

Example 26—Significant Financing Component and Right of Return

- IE153. An entity sells provides a product to a purchaser for CU121 that is payable 24 months after delivery. The purchaser obtains control of the product at the inception of the binding arrangement. The binding arrangement permits the purchaser 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.
- IE154. The cash selling price of the product is CU100, which represents the amount that the purchaser would pay upon delivery for the same product sold-provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The entity's cost of the product is CU80.
- IE155. The entity does not recognize revenue when control of the product transfers to the 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 recognized will not occur in accordance with paragraphs ~~5557 – 5759~~ of [draft] IPSAS [X] (ED XX). Consequently, revenue is recognized after three months when the right of return lapses.
- IE156. The binding arrangement includes a significant financing component, in accordance with paragraphs ~~5964 – 6163~~ of [draft] IPSAS [X] (ED XX). 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 purchaser.

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IE157. The 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 purchaser at the inception of the binding arrangement. The following journal entries illustrate how the entity accounts for this binding arrangement in accordance with paragraphs ~~AG66~~AG63 – ~~AG73~~AG70 of [draft] IPSAS [X] (ED XX).

- (a) When the product is transferred to the purchaser, in accordance with paragraph ~~AG67~~AG64 of [draft] IPSAS [X] (ED XX):

Asset for right to recover product to be returned	CU80 ⁸
Inventory	CU80

- (b) During the three-month right of return period, no interest is recognized in accordance with paragraph ~~6466~~ of [draft] IPSAS [X] (ED XX) because no binding arrangement asset or receivable has been recognized.

- (c) When the right of return lapses (the product is not returned):

Receivable	CU100 ⁹
Revenue	CU100
Cost of sales	CU80
Asset for product to be returned	CU80

IE158. Until the entity receives the cash payment from the purchaser, interest revenue would be recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with IPSAS 41, the entity would consider the remaining terms of the binding arrangement.

Example 27—Withheld Payments on a Long-Term Binding Arrangement

IE159. An entity enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by the entity throughout the binding arrangement term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the entity's expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (ie retained) by the purchaser throughout the arrangement and paid to the entity only when the building is complete.

⁸ This example does not consider expected costs to recover the asset.

⁹ 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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IE160. The entity concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with the entity's performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph ~~61(c)~~63(e) of [draft] IPSAS [X] (ED XX). The withholding of a specified percentage of each milestone payment is intended to protect the purchaser from the contractor failing to adequately complete its obligations under the binding arrangement.

Example 28—Determining the Discount Rate

IE161. An entity enters into a binding arrangement with a purchaser to ~~sell~~ provide equipment. Control of the equipment transfers to the purchaser when the binding arrangement is signed. The price stated in the binding arrangement is CU1 million plus a five per cent— rate of interest in the binding arrangement, payable in 60 monthly instalments of CU18,871.

Case A— Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the entity observes that the five per cent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the entity and its purchaser at the inception of the binding arrangement (ie the rate of interest of five per cent in the binding arrangement reflects the credit characteristics of the purchaser).

IE163. The market terms of the financing mean that the cash ~~selling~~ price of the equipment is CU1 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the purchaser. The entity accounts for the receivable in accordance with IPSAS 41.

Case B— Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE164. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the entity observes that the five per cent rate of interest in the binding arrangement is significantly lower than the 12 per cent interest rate that would be used in a separate financing transaction between the entity and its purchaser at the inception of the binding arrangement (ie the rate of interest in the binding arrangement of five per cent does not reflect the credit characteristics of the purchaser). This suggests that the cash ~~selling~~ price is less than CU1 million.

IE165. In accordance with paragraph ~~63~~65 of [draft] IPSAS [X] (ED XX), the entity determines the transaction price by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 per cent interest rate that reflects the credit characteristics of the purchaser. Consequently, the entity determines that the transaction price is CU848,357 (60 monthly payments of CU18,871 discounted at 12 per cent). The entity recognizes revenue and a loan receivable for that amount. The entity accounts for the loan receivable in accordance with IPSAS 41.

Example 29—Advance Payment and Assessment of Discount Rate

IE166. An entity enters into a binding arrangement with a purchaser to ~~sell~~ provide an asset. Control of the asset will transfer to the purchaser in two years (ie the performance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5,000 in two years when the purchaser obtains control of the asset or payment of CU4,000 when the binding arrangement is signed. The purchaser elects to pay CU4,000 when the binding arrangement is signed.

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- IE167. The entity concludes that the binding arrangement contains a significant financing component because of the length of time between when the purchaser pays for the asset and when the entity transfers the asset to the purchaser, as well as the prevailing interest rates in the market.
- IE168. 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 ~~6365~~ of [draft] IPSAS [X] (ED XX), 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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IE169. The following journal entries illustrate how the entity would account for the significant financing component:

- (a) Recognize a binding arrangement liability for the CU4,000 payment received at inception of the binding arrangement:

Cash	CU4,000
Binding arrangement liability	CU4,000

- (b) During the two years from inception of the binding arrangement until the transfer of the asset, the entity adjusts the promised amount of consideration (in accordance with paragraph 6466 of [draft] IPSAS [X] (ED XX) and accretes the binding arrangement liability by recognizing interest on CU4,000 at six per cent for two years:

Interest expense	CU494 ¹⁰⁾
Binding arrangement liability	CU494

- (c) Recognize revenue for the transfer of the asset:

Binding arrangement liability	CU4,494
Revenue	CU4,494

Example 30—Advance Payment

IE170. An entity, a technology product manufacturer, enters into a binding arrangement with a purchaser to provide global telephone technology support and repair coverage for three years along with its technology product. The purchaser purchases this support service at the time of buying the product. Consideration for the service is an additional CU300. Purchasers electing to buy this service must pay for it upfront (ie a monthly payment option is not available).

IE171. To determine whether there is a significant financing component in the binding arrangement, 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 but, instead, to maximize surplus, taking into consideration the risks associated with providing the service. Specifically, if purchasers could pay monthly, they would be less likely to renew and the population of purchasers that continue to use the support service in the later years may become smaller and less diverse over time (ie purchasers that choose to renew historically are those that make greater use of the service, thereby increasing the entity's costs). In addition, purchasers tend to use services more if they pay monthly rather than making an upfront payment.

¹⁰ CU494 = CU4,000 binding arrangement liability × (6 per cent interest per year for two years).

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Finally, the entity would incur higher administration costs such as the costs related to administering renewals and collection of monthly payments.

- IE172. In assessing the requirements in paragraph ~~61(c)~~~~63(e)~~ of [draft] IPSAS [X] (ED XX), 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

Illustrating the Consequences of Applying Paragraphs ~~2123~~, ~~5557 - 5759~~ and ~~6567 - 6870~~ of [draft] IPSAS [X] (ED XX).

- IE173. 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 Non-Cash Consideration

- IE174. An entity enters into a binding arrangement with a purchaser to provide a weekly service for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The entity concludes that the service is a single performance obligation in accordance with paragraph ~~21(b)~~~~23(b)~~ of [draft] IPSAS [X] (ED XX). This is because the entity is providing a series of ~~distinct separately identifiable~~ services that are substantially the same and have the same pattern of transfer (the services transfer to the purchaser over time and use the same method to measure progress—that is, a time-based measure of progress).
- IE175. In exchange for the service, the purchaser promises 100 shares of its common stock per week of service (a total of 5,200 shares for the binding arrangement). The terms in the binding arrangement require that the shares must be paid upon the successful completion of each week of service.
- IE176. 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 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 Payable to a Purchaser

Illustrating the Consequences of Applying Paragraphs ~~6974- 7173~~ of [draft] IPSAS [X] (ED XX).

- IE177. The following example illustrates the requirements on consideration payable to a purchaser. The example is not based on actual transactions.

Example 32—Consideration Payable to a Purchaser

- IE178. An entity that manufactures consumer goods enters into a one-year binding arrangement to ~~sell~~ ~~provide~~ goods to a purchaser that is a large global chain of retail stores. The purchaser commits to buy at least CU15 million of products during the year. The binding arrangement also requires the entity to make a non-refundable payment of CU1.5 million to the purchaser at the inception of the

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binding arrangement. The CU1.5 million payment will compensate the purchaser for the changes it needs to make to its shelving to accommodate the entity's products.

- IE179. The entity considers the requirements in paragraphs ~~6974~~ – ~~7173~~ of [draft] IPSAS [X] (ED XX) and concludes that the payment to the purchaser is not in exchange for a ~~distinct separately identifiable~~ good or service that transfers to the entity. This is because the entity does not obtain control of any rights to the purchaser's shelves. Consequently, the entity determines that, in accordance with paragraph ~~6974~~ of [draft] IPSAS [X] (ED XX), the CU1.5 million payment is a reduction of the transaction price.
- IE180. The entity applies the requirements in paragraph ~~7173~~ of [draft] IPSAS [X] (ED XX) and concludes that the consideration payable is accounted for as a reduction in the transaction price when the entity recognizes revenue for the transfer of the goods. Consequently, as the entity transfers goods to the 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 purchaser, the entity recognizes revenue of CU1.8 million (CU2.0 million invoiced amount less CU0.2 million of consideration payable to the purchaser).

Step 4: Allocating the Transaction price to Performance Obligations

- IE181. *Illustrating the Consequences of Applying Paragraphs ~~5254~~, ~~7274~~ - ~~8587~~ and ~~AG113AG110~~ of [draft] IPSAS [X] (ED XX).*
- IE182. 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

- IE183. An entity enters into a binding arrangement with a purchaser to ~~sell-provide~~ 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 ~~sellsprovides~~ 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.
- IE184. 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 approach for Product C. In making those estimates, the entity maximizes the use of observable inputs (in accordance with paragraph ~~7779~~ of [draft] IPSAS [X] (ED XX)). The entity estimates the stand-alone ~~selling~~ prices as follows:

Product	Stand-alone selling price	Method
CU		
Product A	50	Directly observable (see paragraph 7678 of [draft] IPSAS [X] (ED XX))

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Product	Stand-alone selling price	Method
CU		
Product B	25	Adjusted market assessment approach (see paragraph 78(a) 80(a) of [draft] IPSAS [X] (ED XX))
Product C	75	Expected cost approach (see paragraph 78(b) 80(b) of [draft] IPSAS [X] (ED XX))
Total	150	

IE185. The 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 ~~81~~83 of [draft] IPSAS [X] (ED XX) and concludes that it does not. Consequently, in accordance with paragraphs ~~75~~77 and ~~80~~82 of [draft] IPSAS [X] (ED XX), the discount is allocated proportionately across Products A, B and C. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated Transaction Price	
	CU	
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

IE186. An entity regularly ~~sells~~provides Products A, B and C individually, thereby establishing the following stand-alone selling prices:

Product	Stand-alone selling price
CU	
Product A	40
Product B	55
Product C	45
Total	140

IE187. In addition, the entity regularly ~~sells~~provides Products B and C together for CU60.

Case A—Allocating a Discount to One or More Performance Obligations

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- IE188. The entity enters into a binding arrangement with a purchaser to ~~sell~~-provide 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.
- IE189. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone ~~selling~~-price method (in accordance with paragraph ~~8082~~ of [draft] IPSAS [X] (ED XX). However, because the entity regularly ~~sells~~-provides 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 ~~8183~~ of [draft] IPSAS [X] (ED XX).
- IE190. 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 recognize revenue of CU60 when Products B and C simultaneously transfer to the purchaser.
- IE191. If the 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	
	CU	
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 Approach is Appropriate

- IE192. The entity enters into a binding arrangement with a purchaser to ~~sell~~-provide Products A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Product D. Total consideration in the binding arrangement is CU130. The stand-alone ~~selling~~-price for Product D is highly variable (see paragraph ~~78(c)80(c)~~ of [draft] IPSAS [X] (ED XX) because the entity ~~sells~~-provides Product D to different 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.
- IE193. 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 in accordance with paragraphs ~~8183~~ and ~~8284~~ of [draft] IPSAS [X] (ED XX).
- IE194. As in Case A, because the entity regularly ~~sells~~-provides 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 ~~8183~~ of [draft] IPSAS [X] (ED XX). Using the residual approach, the entity estimates the stand-alone ~~selling~~-price of Product D to be CU30 as follows:

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Product	Stand-alone selling price	Method
CU		
Product A	40	Directly observable (see paragraph 7678 of [draft] IPSAS [X] (ED XX))
Products B and C	60	Directly observable with discount (see paragraph 8183 of [draft] IPSAS [X] (ED XX))
Product D	30	Residual approach (see paragraph 78(c)80(e) of [draft] IPSAS [X] (ED XX))
Total	130	

IE195. 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 ~~7274~~ of [draft] IPSAS [X] (ED XX) and the requirements in paragraph ~~7779~~ of [draft] IPSAS [X] (ED XX).

Case C—Residual Approach is Inappropriate

IE196. The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone ~~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 ~~7274 –7984~~ of [draft] IPSAS [X] (ED XX).

Example 35—Allocation of Variable Consideration

IE197. An entity enters into a binding arrangement with a purchaser for two intellectual property licenses (Licenses 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 Licenses X and Y are CU800 and CU1,000, respectively.

Case A—Variable Consideration Allocated Entirely to One Performance Obligation

IE198. The price stated in the binding arrangement for License X is a fixed amount of CU800 and for License Y the consideration is three per cent of the purchaser's future sales of products that use 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 ~~5254~~ of [draft] IPSAS [X] (ED XX).

IE199. To allocate the transaction price, the entity considers the criteria in paragraph ~~8486~~ of [draft] IPSAS [X] (ED XX) and concludes that the variable consideration (ie the sales-based

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royalties) should be allocated entirely to License Y. The entity concludes that the criteria in paragraph ~~8486~~ of [draft] IPSAS [X] (ED XX) are met for the following reasons:

- (a) The variable payment relates specifically to an outcome from the performance obligation to transfer License Y (ie the purchaser's subsequent sales of products that use License Y).
- (b) Allocating the expected royalty amounts of CU1,000 entirely to License Y is consistent with the allocation objective in paragraph ~~7274~~ of [draft] IPSAS [X] (ED XX). This is because the entity's estimate of the amount of sales-based royalties (CU1,000) approximates the stand-alone ~~selling~~ price of License Y and the fixed amount of CU800 approximates the stand-alone ~~selling~~ price of License X. The entity allocates CU800 to License X in accordance with paragraph ~~8587~~ of [draft] IPSAS [X] (ED XX). This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to License Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph ~~7274~~ of [draft] IPSAS [X] (ED XX).

IE200. The entity transfers License Y at inception of the binding arrangement and transfers License X one month later. Upon the transfer of License Y, the entity does not recognize revenue because the consideration allocated to License Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph ~~AG113AG449~~ of [draft] IPSAS [X] (ED XX), the entity recognizes revenue for the sales-based royalty when those subsequent sales occur.

IE201. When License X is transferred, the entity recognizes as revenue the CU800 allocated to License X.

Case B—Variable Consideration Allocated on the Basis of Stand-Alone ~~Selling~~ Prices

IE202. The price stated in the binding arrangement for License X is a fixed amount of CU300 and for License Y the consideration is five per cent of the purchaser's future sales of products that use License Y. The entity's estimate of the sales-based royalties (ie the variable consideration) is CU1,500 in accordance with paragraph ~~5254~~ of [draft] IPSAS [X] (ED XX).

IE203. To allocate the transaction price, the entity applies the criteria in paragraph ~~8486~~ of [draft] IPSAS [X] (ED XX) to determine whether to allocate the variable consideration (ie the sales-based royalties) entirely to License 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 License Y (ie the purchaser's subsequent sales of products that use License Y), allocating the variable consideration entirely to License Y would be inconsistent with the principle for allocating the transaction price. Allocating CU300 to License X and CU1,500 to License Y does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone ~~selling~~ prices of Licenses X and Y of CU800 and CU1,000, respectively. Consequently, the entity applies the general allocation requirements in paragraphs ~~7577 – 7984~~ of [draft] IPSAS [X] (ED XX).

IE204. The entity allocates the transaction price of CU300 to Licenses 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 ~~AG113AG449~~ of [draft] IPSAS [X] (ED XX), when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

IE205. License Y is transferred to the purchaser at the inception of the binding arrangement and License X is transferred three months later. When License Y is transferred, the entity recognizes as revenue

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the CU167 ($\text{CU1,000} \div \text{CU1,800} \times \text{CU300}$) allocated to License Y. When License X is transferred, the entity recognizes as revenue the CU133 ($\text{CU800} \div \text{CU1,800} \times \text{CU300}$) allocated to License X.

- IE206. In the first month, the royalty due from the purchaser's first month of sales is CU200. Consequently, in accordance with paragraph ~~AG113AG440~~ of [draft] IPSAS [X] (ED XX), the entity recognizes as revenue the CU111 ($\text{CU1,000} \div \text{CU1,800} \times \text{CU200}$) allocated to License Y (which has been transferred to the purchaser and is therefore a satisfied performance obligation). The entity recognizes a binding arrangement liability for the CU89 ($\text{CU800} \div \text{CU1,800} \times \text{CU200}$) allocated to License X. This is because although the subsequent sale by the entity's purchaser has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

Binding Arrangement Costs

Illustrating the Consequences of Applying Paragraphs ~~9092~~ - ~~9395~~, ~~9496- 9799~~ and ~~98400~~ - ~~103405~~ of [draft] IPSAS [X] (ED XX).

- IE207. The following examples illustrate the requirements on incremental costs of obtaining a binding arrangement, costs to fulfill a binding arrangement and amortization and impairment of binding arrangement costs. The examples are not based on actual transactions.

Example 36—Incremental Costs of Obtaining a Binding Arrangement

- IE208. An entity, a provider of consulting services, wins a competitive bid to provide consulting services to a new purchaser. The entity incurred the following costs to obtain the binding arrangement:

	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>

- IE209. In accordance with paragraph ~~9092~~ of [draft] IPSAS [X] (ED XX), the entity recognizes an asset for the CU10,000 incremental costs of obtaining the binding arrangement 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 ~~9092~~ of [draft] IPSAS [X] (ED XX), the entity does not recognize an asset for the bonuses paid to sales supervisors because the bonuses are not incremental to obtaining a binding arrangement. The amounts are discretionary and are based on other factors, including the performance of the entity and the individuals. The bonuses are not directly attributable to identifiable binding arrangements.

- IE210. The entity observes that the external legal fees and travel costs would have been incurred regardless of whether the binding arrangement was obtained. Therefore, in accordance with paragraph ~~9294~~ of [draft] IPSAS [X] (ED XX), those costs are recognized as expenses when incurred, unless they are within the scope of another Standard, in which case, the relevant provisions of that Standard apply.

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Example 37—Costs that Give Rise to an Asset

IE211. An entity enters into a binding arrangement for a service to manage a purchaser's information technology data center for five years. The binding arrangement is renewable for subsequent one-year periods. The average purchaser term is seven years. The entity pays an employee a CU10,000 sales commission upon the purchaser signing the binding arrangement. Before providing the services, the entity designs and builds a technology platform for the entity's internal use that interfaces with the purchaser's systems. That platform is not transferred to the purchaser, but will be used to deliver services to the purchaser.

Incremental Costs of Obtaining a Binding Arrangement

IE212. In accordance with paragraph 9092 of [draft] IPSAS [X] (ED XX), the entity recognizes an asset for the CU10,000 incremental costs of obtaining the 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 amortizes the asset over seven years in accordance with paragraph 98400 of [draft] IPSAS [X] (ED XX), because the asset relates to the services transferred to the purchaser during the term of the binding arrangement of five years and the entity anticipates that the binding arrangement will be renewed for two subsequent one-year periods.

Costs to Fulfill a Binding Arrangement

IE213. The initial costs incurred to set up the technology platform are as follows:

	CU
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

IE214. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the purchaser. The entity accounts for the initial setup costs as follows:

- (a) Hardware costs—accounted for in accordance with IPSAS 17, *Property, Plant and Equipment*.
- (a) Software costs—accounted for in accordance with IPSAS 31, *Intangible Assets*.
- (b) Costs of the design, migration and testing of the data centre—assessed in accordance with paragraph 9496 of [draft] IPSAS [X] (ED XX) to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the entity expects to provide services related to the data center.

IE215. 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 purchaser. Although the costs for these two employees are incurred as part of providing the service to the purchaser, the entity concludes that the costs do not generate or enhance resources of the entity (see

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paragraph ~~94(b)96(b)~~ of [draft] IPSAS [X]-(ED XX)). Therefore, the costs do not meet the criteria in paragraph ~~9496~~ of [draft] IPSAS [X]-(ED XX) and cannot be recognized as an asset using [draft] IPSAS [X]-(ED XX). In accordance with paragraph ~~9799~~, the entity recognizes the payroll expense for these two employees when incurred.

Presentation

Illustrating the Consequences of Applying Paragraphs ~~5557-5759~~, ~~5964-6466~~ and ~~AG66AG69-AG73AG76~~ of [draft] IPSAS [X] (ED XX).

IE216. The following examples illustrate the requirements on presentation of binding arrangement balances. The examples are not based on actual transactions.

Example 38—Binding Arrangement Liability and Receivable

Case A—Cancellable Binding Arrangement

IE217. On January 1, 20X9, an entity enters into a binding arrangement that is cancellable to transfer a product to a purchaser on March 31, 20X9. The binding arrangement requires the purchaser to pay consideration of CU1,000 in advance on January 31, 20X9. The ~~customer-purchaser~~ pays the consideration on March 1, 20X9. The entity transfers the product on March 31, 20X9. The following journal entries illustrate how the entity accounts for the binding arrangement:

- (a) The entity receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

- (b) The entity satisfies the performance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

Case B—Non-Cancellable Binding Arrangement

IE218. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable. The following journal entries illustrate how the entity accounts for the binding arrangement:

- (a) The amount of consideration is due on January 31, 20X9 (which is when the entity recognizes a receivable because it has an unconditional right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

- (a) The entity receives the cash on March 1, 20X9:

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Cash	CU1,000	
Receivable		CU1,000

(b) The entity satisfies the performance obligation on March, 31 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE219. If the entity issued the invoice before January 31, 20X9 (the due date of the consideration), the entity would not present the receivable and the Binding Arrangement 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—Binding Arrangement Asset Recognized for the Entity's Performance

IE220. On January 1, 20X8, an entity enters into a binding arrangement to transfer Products A and B to a purchaser in exchange for CU1,000. The binding arrangement 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 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 purchaser.

IE221. 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 recognizes revenue for each respective performance obligation when control of the product transfers to the customer.

IE222. The entity satisfies the performance obligation to transfer Product A:

Binding Arrangement Asset	CU400	
Revenue		CU400

IE223. The entity satisfies the performance obligation to transfer Product B and to recognize the unconditional right to consideration:

Receivable	CU1,000	
Binding Arrangement Asset		CU400
Revenue		CU600

Example 40—Receivable Recognized for the Entity's Performance

IE224. An entity enters into a binding arrangement with a purchaser on January 1, 20X9 to transfer products to the purchaser for CU150 per product. If the purchaser purchases more than 1 million

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products in a calendar year, the binding arrangement indicates that the price per unit is retrospectively reduced to CU125 per product.

- IE225. Consideration is due when control of the products transfer to the purchaser. Therefore, the entity has an unconditional right to consideration (~~ie i.e.~~, a receivable) for CU150 per product until the retrospective price reduction applies (~~ie i.e.~~ after 1 million products are shipped).
- IE226. In determining the transaction price, the entity concludes at the inception of the binding arrangement that the 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 purchaser of 100 products the entity recognizes the following:

Receivable	CU15,000 ¹¹	
Revenue		CU12,500 ¹²
Refund liability (binding arrangement liability)		CU2,500

- IE227. The refund liability (see paragraph ~~5456~~ of [draft] IPSAS [X] (ED XX) represents a refund of CU25 per product, which is expected to be provided to the purchaser for the volume-based rebate (ie the difference between the CU150 price stated in the binding arrangement that the entity has an unconditional right to receive and the CU125 estimated transaction price).

Disclosure

Illustrating the Consequences of Applying Paragraphs ~~5658~~, ~~113445~~ - ~~114446~~, ~~120422~~ - ~~121423~~, ~~AG61AG58~~ and ~~AG139AG136~~ - ~~AG141AG138~~ of [draft] IPSAS [X] (ED XX).

- IE228. 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 Disclosure

- IE229. An entity reports the following segments: consumer products, transportation and energy, in accordance with IPSAS 18, *Segment Reporting*. When the entity prepares its ~~investor-stakeholder~~ presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (~~ie i.e.~~ goods transferred at a point in time or services transferred over time).
- IE230. The entity determines that the categories used in the ~~investor-stakeholder~~ presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph ~~113445~~ of [draft] IPSAS [X] (ED XX), which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue

¹¹ CU 150 per product X 100 products

¹² CU 125 transaction price per product X 100 products

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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 ~~114146~~ of [draft] IPSAS [X] (ED XX).

Segments	Consumer products	Transport	Energy	Total
	CU	CU	CU	CU
<u>Primary geographical markets</u>				
North America Region A	990	2,250	5,250	8,490
Europe Region B	300	750	1,000	2,050
Asia Region C	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>

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Example 42—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations

IE231. On June 30, 20X7, an entity enters into three binding arrangements (Binding Arrangements A, B and C) with separate purchasers to provide services. Each binding arrangement has a two-year non-cancellable term. The entity considers the requirements in paragraphs ~~119~~124 – ~~121~~123 of [draft] IPSAS [X] (ED XX) in determining the information in each binding arrangement to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

Binding Arrangement A

IE232. Cleaning services are to be provided over the next two years typically at least once per month. For services provided, the purchaser pays an hourly rate of CU25.

IE233. Because the entity bills a fixed amount for each hour of service provided, the entity has a right to invoice the purchaser in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with paragraph ~~AG61~~AG58 of [draft] IPSAS [X] (ED XX). Consequently, no disclosure is necessary if the entity elects to apply the practical expedient in paragraph ~~120(b)122(b)~~ of [draft] IPSAS [X] (ED XX).

Binding Arrangement B

IE234. 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 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.

IE235. The entity discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to recognize the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this Binding Arrangement as of December 31, 20X7	4,800 ¹³	2,400 ¹⁴	7,200

Binding Arrangement C

IE236. 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 purchaser's facility (ie a performance bonus). The entity estimates that it will be entitled to CU750 of the variable consideration. On the basis of the entity's assessment of the factors in

¹³ CU4,800 = CU400 × 12 months.

¹⁴ CU2,400 = CU400 × 6 months

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paragraph 5658 of [draft] IPSAS [X] (ED XX), 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 recognized will not occur. The entity measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE237. The entity discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to 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 C included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of December 31, 20X7	1,575 ¹⁵	788 ¹⁶	2,363

IE238. In addition, in accordance with paragraph 122 of [draft] IPSAS [X] (ED XX), 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 Allocated to the Remaining Performance Obligations—Qualitative Disclosure

IE239. On January 1, 20X2, an entity enters into a binding arrangement with a 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 December 31, 20X2, the entity has 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.

IE240. At 31 December 20X2, the entity discloses the amount of the transaction price that has not yet been recognized as revenue in its disclosure of the transaction price allocated to the remaining performance obligations. The entity also discloses an explanation of when the entity expects to recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining performance obligation or by providing a qualitative explanation. Because the entity is uncertain about the timing of revenue recognition, the entity discloses this information qualitatively as follows:

'As of December 31, 20X2, the aggregate amount of the transaction price allocated to the remaining performance obligation is CU6.8 million and the entity will recognize this revenue as the building is completed, which is expected to occur over the next 12–18 months.'

¹⁵ Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

¹⁶ CU1,575 ÷ 2 = CU788 (ie for 6 months of the year).

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Warranties

Illustrating the Consequences of Applying Paragraphs 2628- 2729, 5964 - 6466 and AG74AG77 - AG79AG82 of [draft] IPSAS [X] (ED XX).

IE241. The following example illustrates the requirements on identifying performance obligations and warranties. The example is not based on actual transactions.

Example 44—Warranties

IE242. An entity, a manufacturer, provides its 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 binding arrangement also provides the purchaser with the right to receive up to 20 hours of training services on how to operate the product at no additional cost.

IE243. The entity assesses the goods and services in the binding arrangement to determine whether they are distinct-separately identifiable and therefore give rise to separate performance obligations.

IE244. The product and training services are each capable of being distinct-separately identifiable in accordance with paragraphs 26(a)28(a) and 2729 of [draft] IPSAS [X] (ED XX), because the purchaser can generate economic benefits or receive service potential from the product on its own without the training services and can generate economic benefits or receive service potential from the training services together with the product that already has been transferred by the entity. The entity regularly sells-provides the product separately without the training services.

IE245. The entity next assesses whether its promises to transfer the product and to provide the training services are separately identifiable in accordance with paragraphs 26(b)28(b) and 2830 of [draft] IPSAS [X] (ED XX). The entity does not provide a significant service of integrating the training services with the product (see paragraph 28(a)30(a) of [draft] IPSAS [X] (ED XX)). The training services and product do not significantly modify or customize each other (see paragraph 28(b)30(b) of [draft] IPSAS [X] (ED XX)). The product and the training services are not highly interdependent or highly interrelated (see paragraph 28(c)30(c) of [draft] IPSAS [X] (ED XX)). The entity would be able to fulfill 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 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.

IE246. The product and training services are each distinct-separately identifiable in accordance with paragraph 2628 of [draft] IPSAS [X] (ED XX) and therefore give rise to two separate performance obligations.

IE247. Finally, the entity assesses the promise to provide a warranty and observes that the warranty provides the purchaser with the assurance that the product will function as intended for one year. The entity concludes, in accordance with paragraphs AG74AG74 – AG79AG76 of [draft] IPSAS [X] (ED XX), that the warranty does not provide the 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 19.

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IE248. As a result, the entity allocates the transaction price to the two performance obligations (the product and the training services) and recognizes revenue when (or as) those performance obligations are satisfied.

Principal ~~y~~ Versus Agent Considerations

Illustrating the Consequences of Applying Paragraphs ~~AG80AG77~~ - ~~AG88AG85~~ of [draft] IPSAS [X] (ED XX).

IE249. The following examples illustrate the requirements on principal versus agent considerations. The examples are not based on actual transactions.

Example 45—Arranging for the Provision of Goods or Services (Entity is an Agent)

IE250. An entity operates a website that enables purchasers to purchase goods from a range of suppliers who deliver the goods directly to the purchasers. Under the terms of the entity's 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 at prices that are set by the supplier. The entity requires payment from purchaser before orders are processed and all orders are non-refundable. The entity has no further obligations to the purchaser after arranging for the products to be provided to the purchaser.

IE251. To determine whether the entity's performance obligation is to provide the specified goods itself (~~ie i.e.~~, the entity is a principal) or to arrange for those goods to be provided by the supplier (~~ie i.e.~~, the entity is an agent), the entity identifies the specified good or service to be provided to the purchaser and assesses whether it controls that good or service before the good or service is transferred to the purchaser.

IE252. The website operated by the entity is a marketplace in which suppliers offer their goods and purchasers purchase the goods that are offered by the suppliers. Accordingly, the entity observes that the specified goods to be provided to purchasers that use the website are the goods provided by the suppliers, and no other goods or services are promised to purchasers by the entity.

IE253. The entity concludes that it does not control the specified goods before they are transferred to purchasers 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 purchasers. For example, it cannot direct the goods to parties other than the purchaser or prevent the supplier from transferring those goods to the purchaser. The entity does not control the suppliers' inventory of goods used to fulfill the orders placed by purchasers using the website.

IE254. As part of reaching that conclusion, the entity considers the following indicators in paragraph ~~AG86AG83~~ of [draft] IPSAS [X] ~~—~~ (ED XX). The entity concludes that these indicators provide further evidence that it does not control the specified goods before they are transferred to the purchasers:

- (a) The supplier is primarily responsible for fulfilling the promise to provide the goods to the purchaser. The entity is neither obliged to provide the goods if the supplier fails to transfer the goods to the purchaser, nor responsible for the acceptability of the goods.
- (b) The entity does not take inventory risk at any time before or after the goods are transferred to the purchaser. The entity does not commit itself to obtain the goods from the supplier

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before the goods are purchased by the purchaser, and does not accept responsibility for any damaged or returned goods.

- (c) The entity does not have discretion in establishing prices for the supplier's goods. The sales price is set by the supplier.

IE255. 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 purchaser (which, in this example, is when goods are purchased by the purchaser), the entity recognizes revenue in the amount of the commission to which it is entitled.

Example 46—Promise to Provide Goods or Services (Entity is a Principal)

IE256. An entity enters into a binding arrangement with a purchaser for equipment with unique specifications. The entity and the purchaser develop the specifications for the equipment, which the entity communicates to a supplier that the entity enters into a binding arrangement with to manufacture the equipment. The entity also arranges to have the supplier deliver the equipment directly to the purchaser. Upon delivery of the equipment to the purchaser, the terms of the binding arrangement require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment.

IE257. The entity and the purchaser negotiate the selling-price and the entity invoices the purchaser for the agreed-upon price with 30-day payment terms. The entity's surplus is based on the difference between the sales price negotiated with the purchaser and the price charged by the supplier.

IE258. The binding arrangement between the entity and the purchaser requires the 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.

IE259. To determine whether the entity's performance obligation is 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 another party (*i.e.*, the entity is an agent), the entity identifies the specified good or service to be provided to the purchaser and assesses whether it controls that good or service before the good or service is transferred to the purchaser.

IE260. The entity concludes that it has promised to provide the purchaser with specialized 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~~separately identifiable, because they are not separately identifiable (*i.e.*, there is a single performance obligation). The entity is responsible for the overall management of the binding arrangement (for example, by ensuring that the manufacturing service conforms to the specifications) and, thus, provides a significant service of integrating those items into the combined output—the specialized equipment—for which the purchaser has entered 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 purchaser as the specialized equipment.

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- IE261. The entity concludes that it controls the specialized equipment before that equipment is transferred to the purchaser (see paragraph ~~AG83(c)~~AG80(e)). The entity provides the significant integration service necessary to produce the specialized equipment and, therefore, controls the specialized equipment before it is transferred to the purchaser. The entity directs the use of the supplier's manufacturing service as an input in creating the combined output that is the specialized equipment. In reaching the conclusion that it controls the specialized equipment before that equipment is transferred to the purchaser, the entity also observes that, even though the supplier delivers the specialized equipment to the purchaser, the supplier has no ability to direct its use (ie the terms of the binding arrangement between the entity and the supplier preclude the supplier from using the specialized equipment for another purpose or directing that equipment to another purchaser). The entity also obtains the remaining economic benefits or service potential from the specialized equipment by being entitled to the consideration in the binding arrangement from the purchaser.
- IE262. Thus, the entity concludes that it is a principal in the transaction. The entity does not consider the indicators in paragraph ~~AG86~~AG83 of [draft] IPSAS [X] (ED XX) because the evaluation above is conclusive without consideration of the indicators. The entity recognizes revenue in the gross amount of consideration to which it is entitled from the purchaser in exchange for the specialized equipment.

Example 46A—Promise to Provide Goods or Services (Entity is a Principal)

- IE263. An entity enters into a binding arrangement with a purchaser to provide office maintenance services. The entity and the 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 binding arrangement. The entity invoices the purchaser for the agreed-upon price on a monthly basis with 10-day payment terms.
- IE264. The entity regularly engages third-party service providers to provide office maintenance services to its purchasers. When the entity obtains a binding arrangement from a purchaser, the entity enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the purchaser. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the entity's binding arrangements with purchasers. However, the entity is obliged to pay the service provider even if the purchaser fails to pay.
- IE265. To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the purchaser and assesses whether it controls that good or service before the good or service is transferred to the purchaser.
- IE266. The entity observes that the specified services to be provided to the purchaser are the office maintenance services for which the purchaser entered into a binding arrangement, and that no other goods or services are promised to the purchaser. While the entity obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the purchaser, that right is not transferred to the purchaser. That is, the entity retains the ability to direct the use of, and obtain substantially all the remaining economic benefits or service potential from, that right. For example, the entity can decide whether to direct the service provider to provide the office maintenance services for that purchaser, or for another purchaser, or at its own facilities. The 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

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from the service provider is not the specified good or service in its binding arrangement with the purchaser.

IE267. The entity concludes that it controls the specified services before they are provided to the purchaser. The entity obtains control of a right to office maintenance services after entering into the binding arrangement with the purchaser but before those services are provided to the purchaser. The terms of the entity's binding arrangement with the service provider give the entity the ability to direct the service provider to provide the specified services on the entity's behalf (see paragraph ~~AG83(b)~~AG80(b)). In addition, the entity concludes that the following indicators in paragraph ~~AG86~~AG83 of [draft] IPSAS [X] (ED XX) provide further evidence that the entity controls the office maintenance services before they are provided to the purchaser:

- (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 purchaser, it is the entity itself that is responsible for ensuring that the services are performed and are acceptable to the purchaser (ie the entity is responsible for fulfillment of the promise in the binding arrangement, regardless of whether the entity performs the services itself or engages a third-party service provider to perform the services).
- (b) The entity has discretion in setting the price for the services to the purchaser.

IE268. The entity observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the purchaser. 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 ~~IE267~~IE269.

IE269. Thus, the entity is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the purchaser in exchange for the office maintenance services.

Example 47—Promise to Provide Goods or Services (Entity is a Principal)

IE270. An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets ~~sold~~provided 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.

IE271. The entity determines the prices at which the airline tickets will be ~~sold~~provided to its purchasers. The entity ~~sells~~provides the tickets and collects the consideration from purchasers when the tickets are purchased.

IE272. The entity also assists the 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 purchaser for dissatisfaction with the service.

IE273. 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 purchaser and assesses whether it controls that good or service before the good or service is transferred to the purchaser.

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- IE274. 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 purchasers (see paragraph ~~AG83(a)~~AG80(a)). Consequently, the entity determines that the specified good or service to be provided to its purchaser 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 purchaser.
- IE275. The entity controls the right to each flight before it transfers that specified right to one of its purchasers because the entity has the ability to direct the use of that right by deciding whether to use the ticket to fulfill a binding arrangement with a purchaser and, if so, which binding arrangement it will fulfill. The entity also has the ability to obtain the remaining economic benefits and/or 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.
- IE276. The indicators in paragraphs ~~AG86(b)~~AG83(b) – (c) of [draft] IPSAS [X] (ED XX) also provide relevant evidence that the entity controls each specified right (ticket) before it is transferred to the purchaser. 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 with a 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 purchaser to resell the ticket to or whether it can obtain a favorable price for the ticket. The entity also establishes the price that the purchaser will pay for the specified ticket.
- IE277. Thus, the entity concludes that it is a principal in the transactions with purchasers. The entity recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the purchasers.

Example 48—Arranging for the Provision of Goods or Services (Entity is an Agent)

- IE278. An entity ~~sells~~provides vouchers that entitle purchasers to future meals at specified restaurants. The sales price of the voucher provides the purchaser with a significant discount when compared with the normal ~~selling~~ prices of the meals (for example, a purchaser pays CU100 for a voucher that entitles the purchaser 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 purchaser; instead, it purchases vouchers only as they are requested by the purchasers. The entity ~~sells~~provides the vouchers through its website and the vouchers are non-refundable.
- IE279. The entity and the restaurants jointly determine the prices at which the vouchers will be ~~sold~~ provided to purchasers. Under the terms of its binding arrangements with the restaurants, the entity is entitled to 30 per cent of the voucher price when it ~~sells~~provides the voucher.
- IE280. The entity also assists the purchasers in resolving complaints about the meals and has a buyer satisfaction program. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a purchaser for dissatisfaction with the service.
- IE281. To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the purchaser and assesses whether it controls the specified good or service before that good or service is transferred to the purchaser.
- IE282. A purchaser obtains a voucher for the restaurant that it selects. The entity does not engage the restaurants to provide meals to purchasers on the entity's behalf as described in the indicator in

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paragraph ~~AG86(a)~~AG83(a) of draft] IPSAS [X]—(ED XX). Therefore, the entity observes that the specified good or service to be provided to the purchaser is the right to a meal (in the form of a voucher) at a specified restaurant or restaurants, which the 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 purchasers.

IE283. 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) The vouchers are created only at the time that they are transferred to the 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 economic benefits or service potential from the vouchers, before they are transferred to purchasers.
- (b) The entity neither purchases, nor commits itself to purchase, vouchers before they are sold provided to purchasers. The entity also has no responsibility to accept any returned vouchers. Therefore, the entity does not have inventory risk with respect to the vouchers as described in the indicator in paragraph ~~AG86(b)~~AG83(b) of draft] IPSAS [X] (ED XX).

IE284. Thus, the entity concludes that it is an agent with respect to the vouchers. The entity 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 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 Principal and an Agent in the Same Binding Arrangement

IE285. An entity sells/provides services to assist its 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 binding arrangement with a purchaser, the purchaser agrees to obtain a license to access a third party's database of information on potential recruits. The entity arranges for this license with the third party, but the purchaser enters into a binding arrangement directly with the database provider for the license. The entity collects payment on behalf of the third-party database provider as part of the entity's overall invoicing to the purchaser. The database provider sets the price charged to the purchaser for the license, and is responsible for providing technical support and credits to which the purchaser may be entitled for service down time or other technical issues.

IE286. To determine whether the entity is a principal or an agent, the entity identifies the specified goods or services to be provided to the purchaser, and assesses whether it controls those goods or services before they are transferred to the purchaser.

IE287. For the purpose of this example, it is assumed that the entity concludes that its recruitment services and the database access license are each distinct—separately identifiable on the basis of its assessment of the requirements in paragraphs ~~2628—2934~~ of draft] IPSAS [X]—(ED XX). Accordingly, there are two specified goods or services to be provided to the purchaser—access to the third party's database and recruitment services.

IE288. The entity concludes that it does not control the access to the database before it is provided to the purchaser. The entity does not at any time have the ability to direct the use of the license because the purchaser enters into a binding arrangement for the license directly with the database provider. The entity does not control access to the provider's database—it cannot, for example, grant access

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to the database to a party other than the purchaser, or prevent the database provider from providing access to the purchaser.

IE289. As part of reaching that conclusion, the entity also considers the indicators in paragraph ~~AG86AG83~~ of draft IPSAS [X] (ED XX). 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 purchaser:

- (a) The entity is not responsible for fulfilling the promise to provide the database access service. The purchaser enters into a binding arrangement for the 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).
- (b) The entity does not have inventory risk because it does not purchase, or commit itself to purchase, the database access before the purchaser enters into a binding arrangement for database access directly with the database provider.
- (c) The entity does not have discretion in setting the price for the database access with the purchaser because the database provider sets that price.

IE290. 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 purchaser.

Purchaser Options for Additional Goods or Services

Illustrating the Consequences of Applying Paragraphs ~~2628- 2830~~, and ~~AG89AG86 - AG93AG90~~ of [draft] IPSAS [X] (ED XX).

IE291. 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 Provides the Purchaser with a Material Right (Discount Voucher)

IE292. An entity enters into a binding arrangement for the sale of Product A for CU100. As part of the binding arrangement, the entity gives the 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.

IE293. Because all purchasers will receive a 10 per cent discount on purchases during the next 30 days, the only discount that provides the purchaser with a material right is the discount that is incremental to 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 binding arrangement for the sale of Product A.

IE294. To estimate the stand-alone ~~selling~~ price of the discount voucher in accordance with paragraph ~~AG92AG89~~ of draft IPSAS [X] (ED XX), the entity estimates an 80 per cent likelihood that a purchaser will redeem the voucher and that a 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

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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:

Performance obligation	Stand-alone selling price	
CU		
Product A	100	
Discount voucher	12	
Total	112	
Allocated transaction price		
Product A	89	(CU100 ÷ CU112 × CU100)
Discount voucher	11	(CU12 ÷ CU112 × CU100)
Total	100	

IE295. The entity allocates CU89 to Product A and recognizes revenue for Product A when control transfers. The entity allocates CU11 to the discount voucher and recognizes revenue for the voucher when the purchaser redeems it for goods or services or when it expires.

Example 50—Option that does not Provide the Purchaser with a Material Right (Additional Goods or Services)

IE296. An entity in the telecommunications sector enters into a binding arrangement with a 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 specifies the price for any additional call minutes or texts that the purchaser may choose to purchase in any month. The prices for those services are equal to their stand-alone ~~selling~~ prices.

IE297. The entity determines that the promises to provide the handset and network service are each separate performance obligations. This is because the purchaser can ~~generate economic benefits~~ 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 purchaser in accordance with the criterion in paragraph ~~26(a)28(a)~~ of draft] IPSAS [X] (ED XX). In addition, the handset and network service are separately identifiable in accordance with the criterion in paragraph ~~26(b)28(b)~~ of draft] IPSAS [X] (ED XX) (on the basis of the factors in paragraph ~~2830~~ of draft] IPSAS [X] (ED XX)).

IE298. The entity determines that the option to purchase the additional call minutes and texts does not provide a material right that the purchaser would not receive without entering into the binding arrangement (see paragraph ~~AG91AG88~~ of draft] IPSAS [X] (ED XX)). 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 purchaser a material right, the entity concludes it is not a performance obligation in the binding arrangement. Consequently, the entity does not allocate any of the transaction price to the option for additional

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call minutes or texts. The entity will recognize revenue for the additional call minutes or texts if and when the entity provides those services.

Example 51—Option that Provides the Purchaser with a Material Right (Renewal Option)

- IE299. An entity enters into 100 separate binding arrangements with purchasers to provide one year of maintenance services for CU1,000 per binding arrangement. The terms of the binding arrangements specify that at the end of the year, each purchaser has the option to renew the maintenance binding arrangement for a second year by paying an additional CU1,000. 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 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 purchaser does not initially purchase the service or allows the service to lapse.
- IE300. The entity concludes that the renewal option provides a material right to the purchaser that it would not receive without entering into the binding arrangement, because the price for maintenance services are significantly higher if the purchaser elects to purchase the services only in Year 2 or 3. Part of each 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.
- IE301. The renewal option is for a continuation of maintenance services and those services are provided in accordance with the terms of the existing binding arrangement. Instead of determining the stand-alone ~~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 ~~AG93~~AG90 of draft] IPSAS [X] (ED XX).
- IE302. The entity expects 90 purchasers to renew at the end of Year 1 (90 per cent of binding arrangements ~~sold~~provided) and 81 customers to renew at the end of Year 2 (90 per cent of the 90 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 arrangements ~~sold~~provided).
- IE303. At the inception of the binding arrangement, the entity determines the expected consideration for each binding arrangement is CU2,710 [CU1,000 + (90 per cent × CU1,000) + (81 per cent × CU1,000)]. The entity also determines that recognizing revenue on the basis of costs incurred relative to the total expected costs depicts the transfer of services to the purchaser. Estimated costs for a three-year binding arrangement are as follows:

	CU
Year 1	600
Year 2	750
Year 3	1,000

- IE304. Accordingly, the pattern of revenue recognition expected at the inception of the binding arrangement for each binding arrangement is as follows:

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	Expected costs adjusted for likelihood of renewal of the binding arrangement	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>

- IE305. Consequently, at the 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 recognized in Year 1 of CU78,000 (CU780 × 100)].
- IE306. Assuming there is no change in the entity's expectations and the 90 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 recognized revenue of CU78,000 (CU780 × 100) and has recognized a binding arrangement liability of CU112,000.
- IE307. 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 recognized in Year 1 and to be recognized in Year 2 of CU165,700 (CU78,000 + CU877 × 100)].
- IE308. If the actual number of renewals to the binding arrangement was different than what the entity expected, the entity would update the transaction price and the revenue recognized accordingly.

Example 52—Purchaser Loyalty Program

- IE309. An entity has a purchaser loyalty programme that rewards a purchaser with one purchaser 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, 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 estimates a stand-alone ~~selling~~ price of CU0.95 per point (totaling CU9,500) on the basis of the likelihood of redemption in accordance with paragraph ~~AG92~~~~AG89~~ of draft IPSAS [X] (ED XX).
- IE310. The points provide a material right to purchasers that they would not receive without entering into a binding arrangement. Consequently, the entity concludes that the promise to provide points to the 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:

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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)]

IE311. 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 recognizes revenue for the loyalty points of CU4,110 $[(4,500 \text{ points} \div 9,500 \text{ points}) \times \text{CU}8,676]$ and recognizes a binding arrangement liability of CU4,566 (CU8,676 – CU4,110) for the unredeemed points at the end of the first reporting period.

IE312. 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 recognizes revenue for the loyalty points of CU3,493 $\{[(8,500 \text{ total points redeemed} \div 9,700 \text{ total points expected to be redeemed}) \times \text{CU}8,676 \text{ initial allocation}] - \text{CU}4,110 \text{ recognized in the first reporting period}\}$. The binding arrangement liability balance is CU1,073 (CU8,676 initial allocation – CU7,603 of cumulative revenue recognized).

Non-refundable Upfront Fees

Illustrating the Consequences of Applying Paragraphs [AG98AG95](#) - [AG101AG98](#) of [draft] IPSAS [X] (ED XX).

IE313. The following example illustrate the requirements on non-refundable upfront fees. The example is not based on actual transactions.

Example 53—Non-refundable Upfront Fee

IE314. An entity enters into a binding arrangement with a purchaser for one year of transaction processing services. The entity's binding arrangements have standard terms that are the same for all purchasers. The binding arrangement requires the purchaser to pay an upfront fee to set up the purchaser on the entity's systems and processes. The fee is a nominal amount and is non-refundable. The purchaser can renew the binding arrangement each year without paying an additional fee.

IE315. The entity's setup activities do not transfer a good or service to the purchaser and, therefore, do not give rise to a performance obligation.

IE316. The entity concludes that the renewal option does not provide a material right to the purchaser that it would not receive without entering into that binding arrangement (see paragraph [AG90AG87](#) of draft] IPSAS [X] (ED XX)). 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 recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph [AG99AG96](#) of draft] IPSAS [X] (ED XX).

Licensing

Illustrating the Consequences of Applying Paragraphs [2123–2931](#), [3840–4446](#), [8385–8587](#) and [AG102AG99–AG115AG112](#) of [draft] IPSAS [X] (ED XX).

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IE317. 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 Intellectual Property

IE318. Using the same facts as in Case A in Example 11 (see paragraphs ~~IE53IE55~~ – ~~IE57IE59~~), the entity identifies four performance obligations in a binding arrangement:

- (a) The software license;
- (b) Installation services;
- (c) Software updates; and
- (d) Technical support.

IE319. The entity assesses the nature of its promise to transfer the software license in accordance with paragraph ~~AG107AG104~~ of draft IPSAS [X] (ED XX). The entity does not consider in its assessment of the criteria in paragraph ~~AG107AG104~~ of draft IPSAS [X] (ED XX) the promise to provide software updates, because they result in the transfer of an additional good or service to the purchaser (see paragraph ~~AG107(c)AG104(e)~~). The entity also observes that it does not have any implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the license period. The entity observes that the software remains functional without the updates and the technical support and, therefore, the ability of the purchaser to obtain the ~~economic~~ 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 binding arrangement does not require, and the 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 relates has significant stand-alone functionality and none of the criteria in paragraph ~~AG107AG104~~ of I of draft IPSAS [X] (ED XX) are met. The entity further concludes that the nature of the entity's promise in transferring the 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 as a performance obligation satisfied at a point in time.

Example 55—License of Intellectual Property

IE320. An entity enters into a binding arrangement with a 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 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 purchaser's ability to ~~derive~~ generate economic benefits or ~~receive~~ service potential from the license during the license period, because the intellectual property is used in an sector in which technologies change rapidly.

IE321. The entity assesses the goods and services promised to the purchaser to determine which goods and services are ~~distinct~~ separately identifiable in accordance with paragraph ~~2628~~ of draft IPSAS [X] (ED XX). The entity determines that the purchaser can generate economic benefits or ~~receive~~ service potential from (a) the license on its own without the updates; and (b) the updates

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together with the initial license. Although the economic benefits or service potential that the purchaser can derive/could obtain from the license on its own (i.e., without the updates) is limited because the updates are integral to the purchaser's ability to continue to use the intellectual property in an 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 26(a)28(a) of draft] IPSAS [X] (ED XX) is met for the license and the updates.

IE322. The fact that the economic benefits or service potential that the purchaser can derive/could obtain from the license on its own (i.e., without the updates) is limited (because the updates are integral to the 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 26(b)28(b) of draft] IPSAS [X] (ED XX) is met. Because the economic benefits or service potential that the 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 fulfill a single promise to deliver a combined item to the purchaser. That is, the nature of the entity's promise in the 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 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 26(b)28(b) of draft] IPSAS [X] (ED XX).

IE323. The nature of the combined good or service that the entity promised to transfer to the 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 binding arrangement. On the basis of this conclusion, the entity applies paragraphs 3032 – 3739 of draft] IPSAS [X] (ED XX) to determine whether single the performance obligation is satisfied at a point in time or over time. The entity concludes that because the purchaser simultaneously receives and consumes the economic benefits or service potential of the entity's performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 34(a)36(a) of draft] IPSAS [X] (ED XX).

Example 56—Identifying a Distinct Separately Identifiable License

IE324. An entity, a pharmaceutical company, licenses to a purchaser its patent rights to an approved drug compound for 10 years and also promises to manufacture the drug for the purchaser. The drug is a mature product; therefore the entity will not undertake any activities to support the drug, which is consistent with its customary practices.

Case A—License is Not Distinct Separately Identifiable

IE325. In this case, no other entity can manufacture this drug because of the highly specialized nature of the manufacturing process. As a result, the license cannot be purchased separately from the manufacturing services.

IE326. The entity assesses the goods and services promised to the purchaser to determine which goods and services are distinct—separately identifiable in accordance with paragraph 2628 of draft] IPSAS [X] (ED XX). The entity determines that the purchaser cannot generate economic benefits or receive service potential from the license without the manufacturing service; therefore, the criterion in paragraph 26(a)28(a) of draft] IPSAS [X] (ED XX) is not met. Consequently, the license and the manufacturing service are not distinct separately identifiable and the entity accounts for the license and the manufacturing service as a single performance obligation.

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IE327. The entity applies paragraphs ~~3032~~ – ~~3739~~ of draft] IPSAS [X] (ED XX) to determine whether the performance obligation (~~ie~~e, the bundle of the license and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—License is ~~Distinct~~Separately Identifiable

IE328. In this case, the manufacturing process used to produce the drug is not unique or specialized and several other entities can also manufacture the drug for the purchaser.

IE329. The entity assesses the goods and services promised to the purchaser to determine which goods and services are ~~distinct~~separately identifiable, and it concludes that the criteria in paragraph ~~2628~~ of draft] IPSAS [X] (ED XX) are met for each of the license and the manufacturing service. The entity concludes that the criterion in paragraph ~~26(a)28(a)~~ of draft] IPSAS [X] (ED XX) is met because the purchaser can generate economic benefits or ~~receive~~ service potential from the 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 generate economic benefits or ~~receive~~ service potential from the manufacturing service together with the license transferred to the purchaser at the start of the binding arrangement.

IE330. The entity also concludes that its promises to grant the license and to provide the manufacturing service are separately identifiable (ie, the criterion in paragraph ~~26(b)28(b)~~ of draft] IPSAS [X] (ED XX) is met). The entity concludes that the license and the manufacturing service are not inputs to a combined item in this binding arrangement on the basis of the principle and the factors in paragraph ~~2830~~ of draft] IPSAS [X] (ED XX). In reaching this conclusion, the entity considers that the purchaser could separately purchase the license without significantly affecting its ability to generate economic benefits or service potential from the license. Neither the license, nor the manufacturing service, is significantly modified or customized by the other and the entity is not providing a significant service of integrating those items into a combined output. The entity further considers that the 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 license independently of fulfilling its promise to subsequently manufacture the drug for the purchaser. Similarly, the entity would be able to manufacture the drug for the purchaser even if the purchaser had previously obtained the license and initially utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the license in this contract (ie the entity would not provide the manufacturing service without the customer having obtained the license), the license and the manufacturing service do not significantly affect each other. Consequently, the entity concludes that its promises to grant the license and to provide the manufacturing service are ~~distinct~~separately identifiable and that there are two performance obligations:

- (a) License of patent rights; and
- (b) Manufacturing service.

IE331. The entity assesses, in accordance with paragraph ~~AG107~~AG104 of draft] IPSAS [X] (ED XX), the nature of the entity's promise to grant the license. The drug is a mature product (ie, it has been approved, is currently being manufactured and has been ~~sold~~provided at a surplus for the last several years). For these types of mature products, the entity's customary 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 purchaser obtains a substantial portion of the economic benefits or service potential of the drug compound from that functionality, rather than from the entity's ongoing activities. The entity

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concludes that the criteria in paragraph ~~AG107AG104~~ of draft] IPSAS [X] (ED XX) are not met because the binding arrangement does not require, and the binding arrangement does not reasonably expect, the entity to undertake activities that significantly affect the intellectual property to which the purchaser has rights. In its assessment of the criteria in paragraph ~~AG107AG104~~ of draft] IPSAS [X] (ED XX), 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 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 license as a performance obligation satisfied at a point in time.

- IE332. The entity applies paragraphs ~~3032~~ – ~~3739~~ of draft] IPSAS [X] (ED XX) to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Example 57—Franchise Rights

- IE333. An entity enters into a binding arrangement with a purchaser and promises to grant a franchise license that provides the purchaser with the right to use the entity's trade name and ~~sell-provides~~ the entity's products for 10 years. In addition to the license, the entity also promises to provide the equipment necessary to operate a franchise store. In exchange for granting the license, the entity receives a sales-based royalty of five per cent of the purchaser's monthly sales. The fixed consideration for the equipment is CU150,000 payable when the equipment is delivered.

Identifying Performance Obligations

- IE334. The entity assesses the goods and services promised to the purchaser to determine which goods and services are ~~distinct-separately identifiable~~ in accordance with paragraph ~~2628~~ of draft] IPSAS [X] (ED XX). The entity observes that the entity, as a franchisor, has developed a customary practice to undertake activities such as 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 purchaser because they are part of the entity's promise to grant a license.
- IE335. The entity determines that it has two promises to transfer goods or services: a promise to grant a license and a promise to transfer equipment. In addition, the entity concludes that the promise to grant the license and the promise to transfer the equipment are each ~~distinct~~sufficiently specific. This is because the purchaser can ~~generate economic~~ benefits or ~~receive~~ service potential from each good or service (i.e., the license and the equipment) on its own or together with other resources that are readily available (see paragraph ~~26(a)28(a)~~ of draft] IPSAS [X] (ED XX)). The purchaser can ~~generate economic~~ benefits or ~~receive~~ service potential from the 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-provided~~ for an amount other than scrap value. The entity also determines that the promises to grant the franchise license and to transfer the equipment are separately identifiable, in accordance with the criterion in paragraph ~~26(b)28(b)~~ of draft] IPSAS [X] (ED XX). The entity concludes that the 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 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 license and the equipment

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are not highly interdependent or highly interrelated because the entity would be able to fulfill each promise (i.e., to license the franchise or to transfer the equipment) independently of the other. Consequently, the entity has two performance obligations:

- (a) The franchise license; and
- (b) The equipment.

Allocating the transaction price

IE336. 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.

IE337. 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 license. The entity concludes that the variable consideration (ie the sales-based royalty) should be allocated entirely to the franchise license because the variable consideration relates entirely to the entity's promise to grant the franchise license. In addition, the entity observes that allocating CU150,000 to the equipment and the sales-based royalty to the franchise 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 (i.e., the sales-based royalty) should be allocated entirely to the performance obligation to grant the franchise license.

Application Guidance: Licensing

IE338. The entity assesses, in accordance with paragraph [AG107AG104](#) of draft] IPSAS [X]-(ED XX), the nature of the entity's promise to grant the franchise license. The entity concludes that the criteria in paragraph [AG107AG104](#) of draft] IPSAS [X]-(ED XX) 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 license period. This is because:

- (a) The entity concludes that the purchaser would reasonably expect that the entity will undertake activities that will significantly affect the intellectual property to which the purchaser has rights. The ability of the purchaser to ~~generate economic~~ ~~obtain~~ benefits or service potential from the intellectual property to which the 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 practice to undertake activities such as analyzing 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 purchaser that indicates that the purchaser will expect the entity to undertake those activities to maximize earnings.
- (b) The entity also observes that the franchise license requires the purchaser to implement any changes that result from those activities and thus exposes the purchaser to any positive or negative effects of those activities.

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- (c) The entity also observes that even though the purchaser may generate economic benefits or receive service potential from the activities through the rights granted by the license, they do not transfer a good or service to the purchaser as those activities occur.

IE339. Because the criteria in paragraph AG107AG104 of draft IPSAS [X]-(ED XX) are met, the entity concludes that the promise to transfer the license is a performance obligation satisfied over time in accordance with paragraph 34(a)36(a) of draft IPSAS [X]-(ED XX).

IE340. The entity also concludes that because the consideration that is in the form of a sales-based royalty relates specifically to the franchise license (see paragraph AG114AG114), the entity applies paragraph AG113AG110 of draft IPSAS [X]-(ED XX). After the transfer of the franchise license, the entity recognizes revenue as and when the purchaser's sales occur because the entity concludes that this reasonably depicts the entity's progress towards complete satisfaction of the franchise license performance obligation.

Example 58—Access to Intellectual Property

IE341. 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 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 purchaser, an operator of cruise ships, can use the entity's characters in various ways, such as in shows or parades, within reasonable guidelines. The binding arrangement requires the purchaser to use the latest images of the characters.

IE342. In exchange for granting the license, the entity receives a fixed payment of CU1 million in each year of the four-year term.

IE343. In accordance with paragraph 2628 of draft IPSAS [X] (ED XX), the entity assesses the goods and services promised to the purchaser to determine which goods and services are distinctseparately identifiable. The entity concludes that it has no other performance obligations other than the promise to grant a license. That is, the additional activities associated with the license do not directly transfer a good or service to the purchaser because they are part of the entity's promise to grant a license.

IE344. The entity assesses the nature of the entity's promise to transfer the license in accordance with paragraph AG107AG104 of draft IPSAS [X] (ED XX). In assessing the criteria the entity considers the following:

- (a) The purchaser reasonably expects (arising from the entity's customary practices) that the entity will undertake activities that will significantly affect the intellectual property to which the purchaser has rights (ie i.e., the characters). This is because the entity's activities (ie development of the characters) change the form of the intellectual property to which the purchaser has rights. In addition, the ability of the purchaser to generate economic obtain benefits or receive service potential from the intellectual property to which the purchaser has rights is substantially derived from, or dependent upon, the entity's ongoing activities (ie the publishing of the comic strip).
- (b) The rights granted by the license directly expose the purchaser to any positive or negative effects of the entity's activities because the binding arrangement requires the purchaser to use the latest characters.

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- (c) Even though the purchaser may generate economic benefits or receive service potential from those activities through the rights granted by the license, they do not transfer a good or service to the purchaser as those activities occur.

- IE345. Consequently, the entity concludes that the criteria in paragraph ~~AG107~~~~AG104~~ of draft] IPSAS [X] (ED XX) are met and that the nature of the entity's promise to transfer the license is to provide the purchaser with access to the entity's intellectual property as it exists throughout the license period. Consequently, the entity accounts for the promised license as a performance obligation satisfied over time (ie the criterion in paragraph ~~34(a)~~~~36(a)~~ of draft] IPSAS [X] (ED XX) is met).
- IE346. The entity applies paragraphs ~~3840~~ – ~~4446~~ of draft] IPSAS [X] (ED XX) to identify the method that best depicts its performance in the license. Because the binding arrangement provides the 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 Intellectual Property

- IE347. An entity, a music record label, licenses to a purchaser a ~~1975~~ recording of a classical symphony by a noted orchestra. The 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, the entity receives fixed consideration of CU10,000 per month. The binding ~~arrangement~~ does not include any other goods or services to be provided by the entity. The binding ~~arrangement~~ is non-cancellable.
- IE348. The entity assesses the goods and services promised to the purchaser to determine which goods and services are distinct—separately identifiable in accordance with paragraph ~~2628~~ of draft] IPSAS [X] (ED XX). 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 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 binding arrangement.
- IE349. In accordance with paragraph ~~AG107~~~~AG104~~ of draft] IPSAS [X] (ED XX), 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 (i.e., the ability to be played) and, therefore, the ability of the purchaser to generate economic ~~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 binding arrangement does not require, and the purchaser does not reasonably expect, the entity to undertake activities that significantly affect the licensed recording (i.e., the criterion in paragraph ~~AG107(a)~~~~AG104(a)~~ is not met). Consequently, the entity concludes that the nature of its promise in transferring the license is to provide the 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 recognizes all of the revenue at the point in time when the purchaser can direct the use of, and obtain substantially all of the remaining generate economic benefits or service potential from, the licensed intellectual property.
- IE350. Because of the length of time between the entity's performance (at the beginning of the period) and the purchaser's monthly payments over two years (which are non-cancellable), the entity considers

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the requirements in paragraphs ~~5964~~ – ~~6466~~ of draft] IPSAS [X] (ED XX) to determine whether a significant financing component exists.

Example 60—Sales-based Royalty for a License of intellectual Property

- IE351. An entity, a movie distribution company, licenses Movie XYZ to a purchaser. The purchaser, 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 for display at the purchaser'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'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).
- IE352. 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 would ascribe significantly more value to the license than to the related promotional goods or services. The entity recognizes revenue from the sales-based royalty, the only consideration to which the entity is entitled under the binding arrangement, wholly in accordance with paragraph ~~AG113~~AG140. If the license, 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

- IE353. An entity, a well-known sports team, licenses the use of its name and logo to a purchaser. The purchaser, 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 license, 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 purchaser expects that the entity will continue to play games and provide a competitive team.
- IE354. The entity assesses the goods and services promised to the purchaser to determine which goods and services are ~~distinct—separately identifiable~~ in accordance with paragraph ~~2628~~ of draft] IPSAS [X] (ED XX). The entity concludes that its only performance obligation is to transfer the license. The additional activities associated with the license (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 license.
- IE355. The entity assesses the nature of the entity's promise to transfer the license in accordance with paragraph ~~AG107~~AG104 of draft] IPSAS [X] (ED XX). In assessing the criteria the entity considers the following:
- (a) The entity concludes that the 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 purchaser has rights. This is on the basis of the entity's customary 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 purchaser to ~~generate economic~~ ~~obtain~~ benefits or service potential from the name and logo is substantially derived from, or dependent upon, the expected activities of

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the entity. In addition, the entity observes that because some of its consideration is dependent on the success of the purchaser (through the sales-based royalty), the entity has a shared economic interest with the purchaser, which indicates that the purchaser will expect the entity to undertake those activities to maximize earnings.

- (b) The entity observes that the rights granted by the license (i.e., the use of the team's name and logo) directly expose the purchaser to any positive or negative effects of the entity's activities.
- (c) The entity also observes that even though the purchaser may generate economic benefits or receive service potential from the activities through the rights granted by the license, they do not transfer a good or service to the customer as those activities occur.

IE356. The entity concludes that the criteria in paragraph AG107AG104 of draft IPSAS [X] (ED XX) are met and the nature of the entity's promise to grant the license is to provide the purchaser with access to the entity's intellectual property as it exists throughout the license period. Consequently, the entity accounts for the promised license as a performance obligation satisfied over time (ie the criterion in paragraph 34(a)36(a) of draft IPSAS [X] (ED XX) is met).

IE357. The entity then applies paragraphs 3840 – 4446 of draft IPSAS [X] (ED XX) 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 AG113AG110 of draft IPSAS [X] (ED XX) applies because the sales-based royalty relates solely to the license, which is the only performance obligation in the 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 purchaser's sales of items using the team name or logo occur reasonably depicts the entity's progress towards complete satisfaction of the license performance obligation.

Repurchase Agreements

Illustrating the Consequences of Applying Paragraphs AG116AG119-AG128AG131 of [draft] IPSAS [X] (ED XX).

IE358. The following example illustrate the requirements on repurchase agreements. The example is not based on actual transactions.

Example 62—Repurchase Agreements

IE359. An entity enters into a binding arrangement with a purchaser for the sale of a tangible asset on January 1, 20X7 for CU1 million.

Case A—Call Option: Financing

IE360. The binding arrangement includes a call option that gives the entity the right to repurchase the asset for CU1.1 million on or before December 31, 20X7.

IE361. Control of the asset does not transfer to the purchaser on January 1, 20X7 because the entity has a right to repurchase the asset and therefore the purchaser is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. Consequently, in accordance with paragraph AG118(b)AG115(b) of draft IPSAS [X] (ED XX), 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 AG120AG117 of draft IPSAS [X] (ED XX), the entity does not derecognize the asset and instead recognizes the

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cash received as a financial liability. The entity also recognizes interest expense for the difference between the exercise price (CU1.1 million) and the cash received (CU1 million), which increases the liability.

- IE362. On December 31, 20X7, the option lapses unexercised; therefore, the entity derecognizes the liability and recognizes revenue of CU1.1 million.

Case B—Put Option: Lease

- IE363. Instead of having a call option, the binding arrangement includes a put option that obliges the entity to repurchase the asset at the purchaser's request for CU900,000 on or before December 31, 20X7. The market value is expected to be CU750,000 on December 31, 20X7.
- IE364. At the inception of the binding arrangement, the entity assesses whether the purchaser has a significant economic incentive to exercise the put option, to determine the accounting for the transfer of the asset (see paragraphs [AG122AG149](#) – [AG128AG125](#) of draft] IPSAS [X] (ED XX)). The entity concludes that the purchaser has a 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 purchaser has a significant economic incentive to exercise the put option. Consequently, the entity concludes that control of the asset does not transfer to the purchaser, because the purchaser is limited in its ability to direct the use of, and obtain substantially all of the remaining [economic](#) benefits or service potential from, the asset.
- IE365. In accordance with paragraphs [AG122AG149](#) – [AG123AG120](#) of draft] IPSAS [X] (ED XX), the entity accounts for the transaction as a lease in accordance with IPSAS 13, *Leases*.

Bill-and-Hold Arrangements

Illustrating the Consequences of Applying Paragraphs [AG131AG128](#) - [AG134AG134](#) of [draft] IPSAS [X] (ED XX).

- IE366. The following example illustrate the requirements on bill-and-hold arrangements. The example is not based on actual transactions.

Example 63—Bill-and-Hold Arrangement

- IE367. An entity enters into a binding arrangement with a purchaser on 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.
- IE368. Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the binding arrangement. The promises to transfer the machine and spare parts are [distinct sufficiently specific](#) and result in two performance obligations that each will be satisfied at a point in time. On December 31, 20X9, the purchaser pays for the machine and spare parts, but only takes physical possession of the machine. Although the purchaser inspects and accepts the spare parts, the purchaser requests that the spare parts be stored at the entity's warehouse because of its close proximity to the purchaser's factory. The purchaser has legal title to the spare parts and the parts can be identified as belonging to the purchaser. Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the purchaser's request. The entity expects to hold the spare parts for two

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to four years and the entity does not have the ability to use the spare parts or direct them to another purchaser.

- IE369. The entity identifies the promise to provide custodial services as a performance obligation because it is a service provided to the purchaser and it is ~~distinct~~ sufficiently specific from the machine and spare parts. Consequently, the entity accounts for three performance obligations in the 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 recognized when (or as) control transfers to the purchaser.
- IE370. Control of the machine transfers to the purchaser on December 31, 20X9 when the purchaser takes physical possession. The entity assesses the indicators in paragraph ~~3739~~ of draft] IPSAS [X] (ED XX) to determine the point in time at which control of the spare parts transfers to the purchaser, noting that the entity has received payment, the purchaser has legal title to the spare parts and the purchaser has inspected and accepted the spare parts. In addition, the entity concludes that all of the criteria in paragraph ~~AG133~~ AG139 of draft] IPSAS [X] (ED XX) are met, which is necessary for the entity to recognize revenue in a bill-and-hold arrangement. The entity recognizes revenue for the spare parts on December 31, 20X9 when control transfers to the purchaser.
- IE371. 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 ~~5964~~ – ~~6466~~ of draft] IPSAS [X] (ED XX).

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