IPSASB International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 5**	For: ☐ Approval ☒ Discussion ☒ Information
Meeting Location:	Abu Dhabi, United Arab Emirates		
Meeting Date:	December 10–13, 2019		

REVENUE / TRANSFER EXPENSES

Project summary	To develop guidance on revenue and transfer expense transactions in the public sector.	
Meeting objectives **Project management**	***Topic***	***Agenda Item***
	Revenue / Transfer Expenses: Project Roadmap	5.1.1
	Instructions up to Previous Meeting	5.1.2
	Decisions up to Previous Meeting	5.1.3
Decisions required at this meeting	Process Followed in Addressing In-Period Review Comments	5.2.1
	Summary of In-Period Review Issues	5.2.2
	Transfer Revenue with Performance Obligations and Transfer Revenue	5.2.3
	Disclosures	5.2.4
	Definition of Binding Arrangement	5.2.5
	Examples / Editorials (Included BCs)	5.2.6
Other supporting items	Submitted Comment Templates	5.3.1
	November 6 2019–In-period Review Package ED 70, 71 and 72	5.3.2

Prepared by: Dave Warren (November 2019)

Agenda Item 5.1.1

REVENUE / TRANSFER EXPENSES: PROJECT ROADMAP

Meeting	**Completed Actions or Discussions / Planned Actions or Discussions:**
December 2019	1. Approve: o ED 70, Revenue with Performance Obligations o ED 71, Revenue without Performance Obligations o ED 72, Transfer Expenses
March 2020	1. Documents out for comment
June 2020	1. Documents out for comment
September 2020	1. Initial review of responses
December 2020	1. Discuss Issues
March 2021	1. Discuss Issues 2. Develop: o IPSAS XX, Revenue with Performance Obligations o IPSAS XX, Revenue without Performance Obligations o IPSAS XX, Transfer Expenses
June 2021	1. Approve: o IPSAS XX, Revenue with Performance Obligations o IPSAS XX, Revenue without Performance Obligations o IPSAS XX, Transfer Expenses

Agenda Item 5.1.2

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2019	1. Prepare: o ED 70, Revenue with Performance Obligations o ED 71, Revenue without Performance Obligations o ED 72, Transfer Expenses For approval in December 2019.	1. ED 70, 71 and 72 were released to members on November 6, 2019 for an in-period review. 2. Members provided comments which were actioned by Staff for consideration by the Board at the December 2019 meeting. See Agenda Item 5.2.1 for process details.
September 2019	1. See Agenda Item 6.1.2 for detailed instructions on ED 70.	1. Actioned as part of in-period review. See Agenda Item 6.1.2 for details.
September 2019	1. See Agenda Item 8.1.2 for detailed instructions on ED 71.	1. Actioned as part of in-period review. See Agenda Item 8.1.2 for details.
September 2019	1. See Agenda Item 7.1.2 for detailed instructions on ED 72.	1. Actioned as part of in-period review. See Agenda Item 7.1.2 for details.

Agenda Item 5.1.3

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2019	1. Not Applicable – This Agenda Item is new for December 2019. It summarizes the process followed for the revenue / transfer expenses project. Decisions are included in the specific Agenda Items related to each project.	1. Not Applicable

Agenda Item 5.2.1

Process Followed in Addressing In-Period Review Comments

Purpose

1. To communicate how IPSASB Staff reviewed and actioned comments submitted as part of the in-period review.

Background

2. At the September 2019 meeting, the IPSASB instructed Staff to deliver ED 70, ED 71 and ED 72 in a condition for them to be approved at the December 2019 meeting. To achieve this objective, members agreed to participate in an in-period review to provide comments for Staff to action.

3. Members and Staff agreed the in-period review material should be distributed on November°6,°2019, and with Members providing comments by November 18, 2019.

4. Staff then actioned the comments from November 18, 2019 through to the agenda paper posting deadline.

5. Staff received 12 comment submissions (see Agenda Item 5.3.1 for comments submitted):

#	Region	Respondent
01	Canada	Submitted by IPSASB Technical Advisor, Leona Melamed
02	United Kingdom (x2)	Submitted by IPSASB Member, Lynn Pamment Submitted by IPSASB Technical Advisor, Henning Diederichs
03	United Kingdom	Submitted by IPSASB Chair, Ian Carruthers
04	Australia	Submitted by IPSASB Member, Mike Blake and IPSASB Technical Advisor, Clark Anstis
05	Japan	Submitted by IPSASB Technical Advisor, Takeo Fukiya
06	New Zealand	Submitted by IPSASB Member, Todd Beardsworth and IPSASB Technical Advisor, Anthony Heffernan
07	Switzerland	Submitted by IPSASB Member, Marc Wermuth and IPSASB Technical Advisor, Claudia Beier
08	Canada	Submitted by IPSASB Technical Advisor, Renee Picard
09	South Africa	Submitted by IPSASB Member, Lindy Bodewig and IPSASB Technical Advisor, Amanda Botha
10	United Nations	Submitted by IPSASB Observer, Jeriphanos Gutu
11	European Commission	Submitted by IPSASB Observer, Martin Koehler
12	Austria	Submitted by IPSASB Member, Bernhard Schatz

Detail

6. Staff held teleconferences and meetings to discuss key issues related to the comments received, as needed. These activities took place from November 15–November 20 and were important for Staff understanding before actioning the comments received. Staff held teleconferences with five respondents, related to their submissions, participated in a full day workshop with the United Nations, and had a teleconference with the European Commission.

7. The following process was taken by staff to action comments submitted and the feedback provided via meetings and teleconferences:

   (a) **Reviewed comments**. Comments were consolidated into a single excel workbook (see Agenda Item 5.3.1). Staff reviewed all comments and agreed on action items to ensure consistency was achieved across the exposure drafts. As noted in paragraph 6, teleconferences were held with five respondents to clarify comments, as needed.

   (b) **Identified themes**. Staff identified themes that emerged throughout the submissions and allocated each comment to those themes. This enabled Staff to sort the comments by theme to ensure actions were consistent. For example, several respondents identified the ED 71 structure as an issue. Allocating themes to comments ensured all "structuring" comments were considered and balanced against each other in developing a staff recommendation. See Agenda Item 5.2.2 for additional details.

   (c) **Developed issues papers**. For each significant theme identified in the comments, staff developed an issues paper to outline the staff recommendation, including why a change was made, or not made, to the EDs. See Agenda Item 5.2.2 for additional details.

   (d) **Amended ED 70, ED 71 and ED 72**. Where an action was taken to amend ED 70, ED 71 or ED 72, Staff included the change in mark up. These changes are included in mark up to the November 6, 2019 versions of the EDs. Changes prior to November 6, 2019 have been accepted.

Decision Required

8. No decision required. Staff process is for the information of IPSASB Members.

Agenda Item 5.2.2

Summary of In-Period Review Issues

Purpose

1. To summarize the common themes identified across comments submitted as part of the in-period review.

Detail

2. Staff received almost 300 comments across 12 Comment Submission templates, as part of the in-period review.

3. Many comments addressed the similar issues. Some comments were:

   (a) Consistent across the issue, for example, the scoping requirements across all three EDs should be the same; and

   (b) Inconsistent across the issue, for example, some respondents wanted more disclosures, and others wanted less.

   To ensure all comments were considered, staff identified “themes” to help analyze the responses. For each theme, Staff has developed an issues paper setting out the comments received and a Staff recommendation to the IPSASB.

4. The following themes were identified:

#	Theme	ED Impacted	Issues Paper
01	Transfer Revenue / Transfer Expense	Cross Cutting	Agenda Item 5.2.3
02	Disclosures	Cross Cutting	Agenda Item 5.2.4
03	Binding Arrangement	Cross Cutting	Agenda Item 5.2.5
04	Examples / Editorials (Including BCs)	Cross Cutting	Agenda Item 5.2.6
05	Structure	ED 71 / ED 72	Agenda Item 7.2.4 and Agenda Item 8.2.3
06	Measurement	ED 71	Agenda Item 8.2.4
07	Capital Transfers	ED 71	Agenda Item 8.2.5
08	Scope	ED 72	Agenda Item 7.2.3
09	PSPOA Assessment	ED 72	Agenda Item 7.2.5
10	Other Issues	ED 71	Agenda Item 8.2.6

Agenda Item 5.2.3

Transfer Revenue with Performance Obligations and Transfer Revenue

Question

1. As part of the November in-period review, a respondent raised issues related to the use of transfers across the EDs 70—72. The respondent questioned:

   (a) Whether "Transfer Revenue with Performance Obligations" should be incorporated into [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*;

   (b) Whether "Transfer Revenue" should be incorporated into [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*; and

   (c) Whether the definitions of "Transfer" in ED 71 and "Transfer Expense" in [draft] IPSAS [X] (ED 72), *Transfer Expenses* should include taxes?

2. The IPSASB is asked to consider the Staff's recommendations on how to address this respondents' comments in ED 70, ED 71 and ED 72.

Detail

3. The respondent noted that at the June 2019 IPSASB meeting, Staff presented a diagram which illustrates the mirroring relationship between ED 70, ED 71 and ED 72. This diagram is reproduced in Appendix A of this paper. The respondent noted that it will be important to highlight this mirroring relationship in order to provide constituents with a better understanding of how the three exposure drafts interact together for related transactions. Specifically, transfer expenses (the transactions that are represented by the red box in Appendix A) as well as transfer revenue with performance obligations and transfer revenue without performance obligations (the transactions represented by the black dotted box in Appendix A) should be defined in the three exposure drafts to highlight their importance in the draft standards. The Staff agrees with the respondent's view.

Proposed Definitions

4. "Transfer Expense" was already defined in ED 72 based on the definition of transfers in GFS. ED 72 paragraph 6, would need to be modified to add the underlined portion, for consistency with the proposed Transfer Revenue definition:

   > "A transfer expense is a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return."

5. If the IPSASB agrees to exclude taxes from the definition of a transfer expense, the Staff recommend that accounting for taxes (other than income taxes and payroll taxes, which are addressed by other Standards) is specifically included in the scope of ED 72. Staff consider doing so would have the following advantages:

   (a) ED 72 would provide guidance on the recognition point for taxes payable that is consistent with the requirements for revenue recognition in ED 71, therefore promoting consistency;

   (b) ED 71 addresses taxes and well as transfers; including taxes in ED 72 would be consistent with the scope of ED 71; and

(c) The requirements for accounting for taxes paid and payable is based on the requirements in IFRIC 21, *Levies*. Including requirements for taxes in ED 72 would remove one of the differences between IPSAS and IFRS.

Staff consider that specifically including the accounting for taxes paid and payable in the scope of ED 72 could be achieved with minimal changes, as shown in the Appendix C.

6. To highlight the mirroring relationship, the respondent proposed that the current definition of "Transfers" should be removed from ED 71 and be replaced with a definition for "Transfer Revenue," which should be defined as follows:

> "Transfer Revenue is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."

7. Because the above definition of Transfer Revenue states that it is a transaction in which an entity receives goods, services, or other assets *without providing any good, service, or other asset in return*, this definition can only apply to transfer revenue without performance obligations under ED 71 and cannot be used to describe revenue transactions that are within the scope of ED 70. Therefore, Staff noted that it will be critical to distinguish between the Transfer Revenue with Performance Obligations as shown in Appendix A and Transfer Revenue as defined above.

8. To be consistent with the presentation from June 2019, the Staff proposes to identify the revenue that is recognized by entities providing goods or services to third-party beneficiaries as "Transfer Revenue with Performance Obligations" and define the term as follows:

> "Transfer Revenue with Performance Obligations is the revenue recognized by an entity from the consideration received from a purchaser for the provision of goods, services, or other assets to a third-party beneficiary."

9. Staff noted that it will be important to highlight the interaction between transfer revenue and transfer revenue with performance obligations, since both can arise for different parties from the same transaction or economic event. To achieve this, Staff propose to add the following text to the Application Guidance in ED 70 to better explain the definition:

> "Transfer Revenue with Performance Obligations is a subset of revenue with performance obligations that specifically relates to the provision of goods or services to a third-party beneficiary. Transfer Revenue with Performance Obligations is subject to the recognition, measurement, and disclosure requirements of this [draft] Standard. The receipt of the goods or services by a third-party beneficiary falls within the definition of Transfer Revenue and is accounted by the third-party beneficiary within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*."

Testing the Definitions

10. To test whether the proposed definitions are consistent with the relationship between the three exposure drafts, Staff applied the concepts to the diagram from AG23 of ED 70 which illustrates how a three-party transaction would be accounted for under ED 70, ED 71 and ED 72 by the

various parties. This diagram is reproduced in Appendix B of this paper and was modified for additional Staff commentary.

11. Per the diagram in Appendix B, suppose a National Government is providing funding to the State Government as part of a binding arrangement which requires the State Government to provide vaccinations to children. In this scenario:

    (a) The National Government is the transfer provider and applies ED 72, as it is the party providing a good, service, or other asset to another party without receiving any good, service or other asset in return. From the National Government's perspective, the provision of funding falls within the definition of a Transfer Expense;

    (b) The State Government is the "entity" applying ED 70, as it has received consideration from the National Government in exchange for transferring goods or services (vaccinations) to a third-party beneficiary (in this case, the children). The revenue earned by the State Government in this arrangement would meet the definition of Transfer Revenue with Performance Obligations; and

    (c) The children (if they applied IPSAS) would be the transfer recipient who are recognizing Transfer Revenue under ED 71, as they have received a good, service, or other asset (i.e., the vaccinations) from another entity without providing any good, service, or other asset in return.

12. Based on the above, Staff is of the view that the proposed definitions appropriately reflect the interactions between the three exposure drafts.

Other Issue - Terminology

13. Another respondent in the November in-period review also noted that the definition of "Transfer" should be deleted, but this respondent noted that the term should be incorporated into the definition of revenue that has been recognized within the scope of ED 71.

14. This raises the issue of whether the term "Transfer Revenue" is appropriate because in some cases, the definition of Transfer Revenue per paragraph 5 above could describe a transaction that has not yet been recognized as revenue under ED 71. For example, the receipt of goods, services or other assets could result in the recognition of a liability if the receipt was part of a binding arrangement with present obligations which have not yet been settled.

15. Similarly, the definition of "Transfer Expense," as currently defined in paragraph 4 above, could describe a transaction that has not yet been recognized as an expense under ED 72. For example, the provision of goods, services or other assets could result in the recognition of a binding arrangement asset if the payment relates to performance obligations that have not yet been fulfilled.

16. The Staff propose to address this issue by changing the terminology of "Transfer Revenue" and "Transfer Expense" to "Transfer Receipts" and "Transfer Expenditures", and to only use the terms "Transfer Revenue" or "Transfer Expense" once the amounts have been recognized in the statement of financial performance as revenue or expense.

Agenda Item 5.2.3

Decision Required

17. Does the IPSASB agree with the Staff recommendation to define “Transfer Revenue” and “Transfer Revenue with Performance Obligations”, and to modify the definition of “Transfer Expense”?

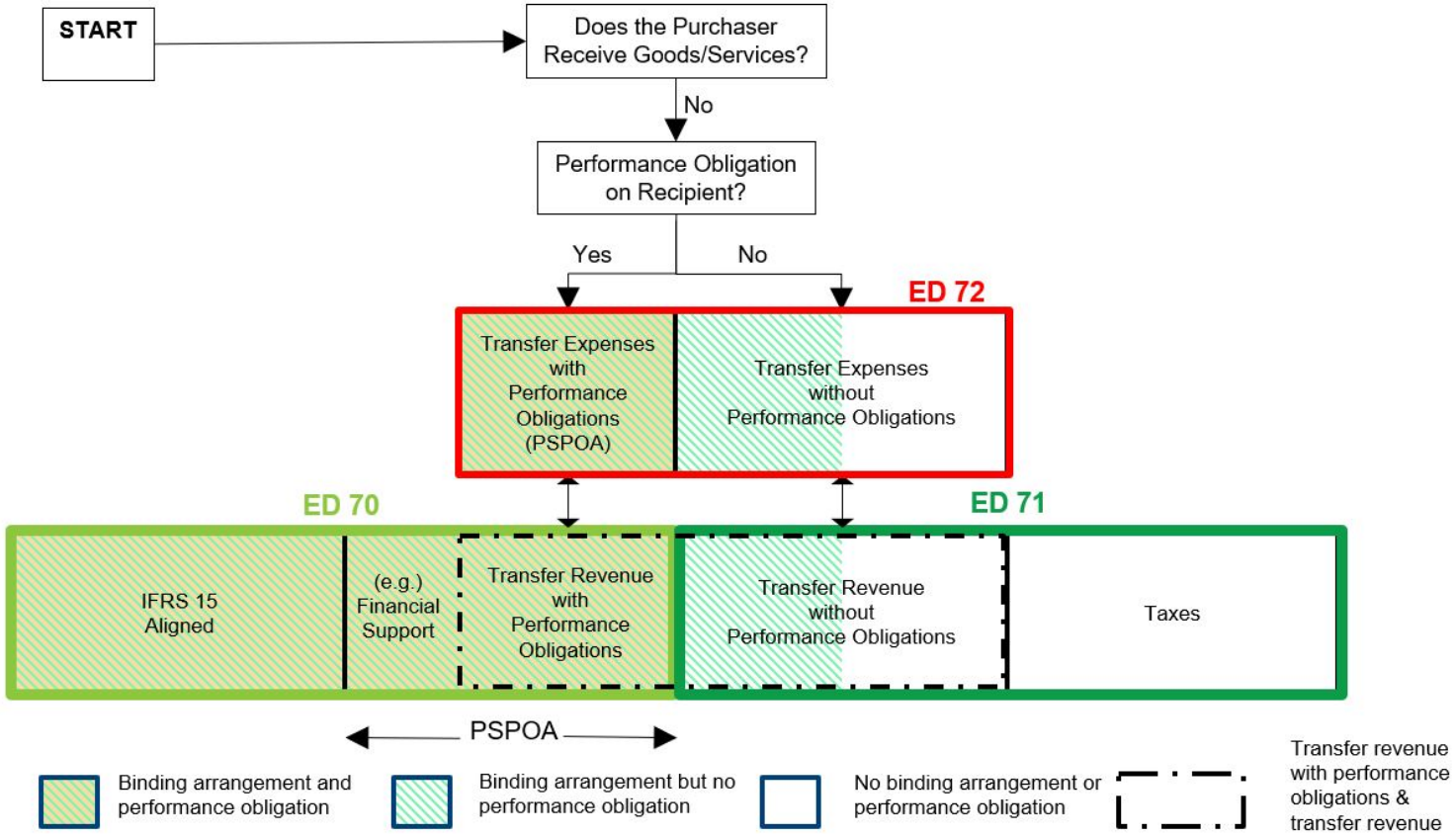
18. If the IPSASB is satisfied with the definitions, does the IPSASB agree with the Staff recommendation on the change in terminology to “Transfer Receipts” and Transfer Expenditures”?

Agenda Item 5.2.3

Appendix A – Diagram Illustrating the Relationship between ED 70, ED 71 and ED 72

The diagram below is an excerpt from the presentation for Agenda Item 12 at the June 2019 meeting, which illustrates the mirroring relationship between ED 70, ED 71 and ED 72.

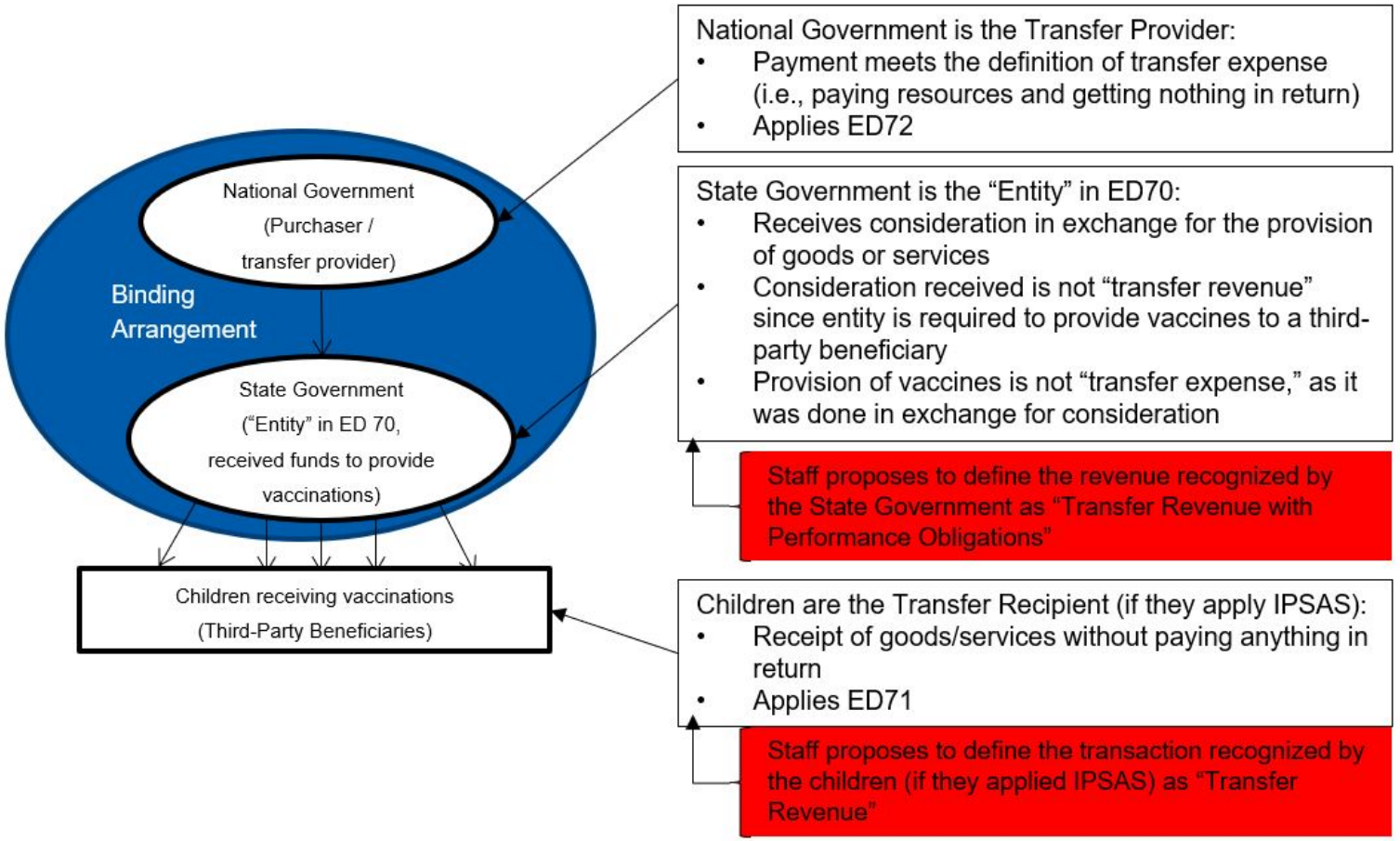
It should be noted that when the diagram was originally presented, the IPSASB considered including a specific exception for research grants in ED 72. This part of the flowchart was removed from the diagram below because the IPSASB decided against the inclusion of the exception.



Agenda Item 5.2.3

Appendix B – Example of how ED 70, ED 71 and ED 72 are Applied by Various Parties to a Three-Party Transaction

The diagram below is an excerpt from AG23 of ED 70, modified for additional Staff commentary.



Agenda Item 5.2.3

Appendix C – Proposed Amendments to ED 72

If the IPSASB agrees to exclude taxes from the definition of a transfer expense and to specifically include the accounting for taxes (other than income taxes and payroll taxes) in the scope of ED 72, the Staff recommends the following amendments to ED 72:

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 expenditure and cash flows arising from transfer expenses, including transfer expenses given for capital purposes; and from payments of those taxes not covered by other Standards.

   Paragraphs AG2–AG4 provide additional guidance on meeting the objective.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for transfer expenses as defined in this [draft] Standard and for taxes paid and payable that are not covered by other Standards.**

…

Transfer Expenses without Performance Obligations and Taxes Paid and Payable

88. **An entity shall recognize and measure taxes paid and payable, other than income taxes and payroll taxes, which are outside the scope of this [draft] Standard, in accordance with paragraphs 90–118 below.**

…

Taxes Paid or Payable

100. Taxes are defined in [draft] IPSAS [X] (ED 71). ~~For the purpose of applying this [draft] Standard, an obligation to pay tax (except income taxes or payroll taxes which, in accordance with paragraph 3, are outside the scope of this [draft] Standard) to a public sector entity is a transfer expense without performance obligations.~~ An entity recognizes an asset for taxes (except income taxes or payroll taxes which, in accordance with paragraph 3, are outside the scope of this [draft] Standard) paid in advance of having a present obligation to pay the taxes because in such circumstances it has the right to an immediate refund and therefore has not lost control of the transferred resources (see paragraph 90(b)). Paragraphs AG101–AG108 provide guidance on accounting for taxes paid or payable.

…

Transfer Expenses without Performance Obligations

125. An entity shall present liabilities from transfer expenses without performance obligations, and liabilities from taxes payable, separately from other liabilities, either in the statement of financial performance or in the notes. An entity shall identify payables separately from other liabilities arising from transfer expenses without performance obligations.

…

Transfer Expenses without Performance Obligations

140. An entity shall disclose all of the following:

(a) A reconciliation of the opening and closing balances of liabilities from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed;

(b) A reconciliation of the opening and closing balances of taxes (other than income taxes and payroll taxes) payable, if not otherwise separately presented or disclosed;

(c) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken;

(d) The amount of any liabilities forgiven by the transfer provider;

(e) Where an entity cannot reliably measure a liability for a transfer expense without performance obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and

(f) The accounting policies adopted for the recognition of transfer expenses without performance obligations.

…

Taxes

AG101. Taxes are defined in [draft] IPSAS [X] (ED 71):

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law. In some jurisdictions, taxes may be referred to by other terms, for example, levies.

AG102. ~~In accordance with paragraph 100, taxes paid and payable by an entity (the transfer provider) are transfer expenses without performance obligations.~~ An entity shall account for the income taxes paid or payable in accordance with the international or national accounting standard dealing with income taxes. An entity shall account for payroll taxes (taxes associated with employee benefits) in accordance with IPSAS 39, *Employee Benefits*. An entity shall account for all other taxes paid or payable in accordance with paragraphs AG103–AG108. However, an entity is not required to account for liabilities that arise from emissions trading schemes in accordance with paragraphs AG103–AG108.

Agenda Item 5.2.4

Disclosures

Question

1. Whether the Board agrees with the recommended approach to address consistency of disclosures across ED 70, ED 71 and ED 72.

Detail

2. Some respondents to the Revenue / Transfer Expense in-period review highlighted the disclosure requirements between ED 70 and ED 71 were inconsistent (See Appendix to Agenda Item 5.2.4).

Analysis

3. The key disclosure differences between ED 70, ED 71 and ED 72 are as follows:

	ED 70	ED 71	ED 72
ED 70.109	Yes	No	Yes
	The disclosure requirements in ED 70.109 enable users to understand the nature, amount, timing and uncertainty of revenue arising from binding arrangements will be useful as well. This disclosure should be include in ED 71 to be consistent.		
ED 70.110-112	Yes	No	Yes
	A respondent suggested adding the guidance on the level of detail required, materiality and aggregation to ED 71 to be consistent with the other two exposure drafts.		
ED 70.113	Yes	No	Yes
	Impairment losses are possible for revenue-related receivables or binding arrangement assets recognized under ED 71, but there is currently no requirement to disclose the information relating to such impairment losses.		
ED 70.114-115	Yes	No	No
	ED 70 provides specific guidance on the disaggregation of revenue and requires disclosure of sufficient information to allow users of the financial statements to reconcile the disaggregated revenue to the revenue information as required by IPSAS 18, *Segment Reporting*. The respondent suggested to add similar requirements for revenue without performance obligations and transfer expenses.		
ED 70.116-119	Yes	No	No

	ED 70 requires disclosure of the movement in binding arrangement balances with details such as decreases in opening balances due to the satisfaction of performance obligations (i.e., a rollforward). A respondent suggested requiring similar disclosures to ED 71 and ED 72. (It should be noted that these disclosure requirements were in the September 2019 draft of ED 72, but the IPSASB decided to remove these items.)		
ED 70.127	Yes	No	Yes
	The disclosure requirements in ED 70.127 on determining the transaction price are useful for constituents. Similar requirements should be included in ED 71.		
ED 70.128-129	Yes	No	No (N/A)
	A respondent suggested that the required disclosures on costs to obtain or fulfill a binding arrangement, including significant judgments, should be replicated in ED 71 for binding arrangements without performance obligations.		
ED 72.120-142	No (N/A)	No	Yes
	ED 72 currently requires specific disclosures for transfer expenses with performance obligations and transfer expenses without performance obligations. A respondent suggested separating the ED 71 disclosures for revenue with binding arrangements and revenue recognized without binding arrangement. Together with the current requirements of ED 70, this suggestion will lead to three major types of revenue—revenue from binding arrangements with performance obligations (ED 70), revenue from binding arrangements without performance obligations (ED 71), and revenue without binding arrangements (ED 71)—which together better mirrors the principles of disclosures from ED 72.		

4. See table of concordance in Appendix to Agenda Item 5.2.4, for full comparison of disclosures across ED 70–72.

Options

5. Staff identified the following options. Each option presents benefits:

   (a) Option 1—Import disclosures from ED 70 into ED 71 for consistency with both ED 70 and ED 72;

      (i) Disclosure requirements for revenue for public sector entities would be consistent regardless of whether they apply IFRS or IPSAS.

      (ii) Disclosures for all revenue transactions would better mirror the disclosure requirements for transfer expenses.

(b) Option 2—Delete the disclosure requirements in ED 70 and ED 72 over and above those required in ED 71

(i) The disclosure requirements of ED 71 are based on those of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Since constituents have not raised concerns with those disclosure requirements, it questions if bringing over ED 70 disclosures is useful or necessary.

(ii) Applying the ED 71 disclosure requirements across ED 70, ED 71 and ED 72 helps implementation and application of the suite of standards on an ongoing basis, because the ED 71 disclosure requirements are less onerous.

(c) Options 3—Maintain the disclosure requirements in ED 70, ED 71 and ED 72, as included in in-period review

(i) The disclosure requirements in ED 70 are currently the best practice for revenue disclosure for commercial transactions and these were provisionally approved in September 2019.

(ii) There have been no issues raised as it relates to the disclosure requirements in IPSAS 23. Adding to their complexity does not appear to address the concerns identified by constituents.

(iii) ED 70 is an alignment project, and this would ensure alignment with IFRS 15, *Revenue from Contracts with Customers*.

(iv) The disclosures in ED 72 were reviewed and provisionally approved by the IPSASB in September 2019.

Recommendation

6. Staff recommends Option 3—*Maintain the in-period disclosure requirements in ED 70, ED 71 and ED 72*. While this does not address the issue of inconsistency, ED 70 and ED 72 continues to be aligned with IFRS 15 and ED 71 continues to be based on IPSAS 23. In the Staff's view, the level of disclosures in the exposure drafts should vary based on the transactions expected to be covered by the standards.

7. Staff recommend including an SMC in each ED as follows:

(a) ED 70—Do you agree that the disclosure requirements in [draft] IPSAS [X] (ED 70) should be aligned with those in IFRS 15, *Revenue from Contracts with Customers*? If not, why not?

(b) ED 71—Do you agree that the disclosure requirements in [draft] IPSAS [X] (ED 71) are appropriate to provide users with sufficient, reliable and relevant information about revenue transactions in the scope of the ED? If not, why not?

(c) ED 72—Do you agree that the disclosure requirements in [draft] IPSAS [X] (ED 72), related to transfer expense with performance obligations, should mirror those in [draft] IPSAS [X] (ED 70)? If not, why not?

Agenda Item 5.2.4

Decision Required

8. Does the IPSASB agree with the Staff recommendations to:

   (a) Adopt Option 3 for disclosures across ED 70, ED 71 and ED 72; and

   (b) The proposed SMCs related to disclosures?

Agenda Item 5.2.4

Appendix to Agenda Item 5.2.4 – Table of Concordance (Disclosures)

Requirements in ED 70	Requirements in ED 71	Requirements in ED 72
Requirements from ED 70:		
Objective of disclosures (109)	Required to provide information that: 1) is useful for decision making, 2) demonstrates accountability of the transfer recipient, and 3) helps users make informed judgments about revenue streams. (94 and 95)	Similar requirements as ED 70 (125)
Consideration of the level of detail required, materiality and aggregation (110 to 112)	No specific considerations in ED 71.	Similar requirements as ED 70 (126 to 128)
Revenue recognized from binding arrangements (113(a))	Disclosure of amount of revenue from (i) taxes, (ii) other compulsory contributions and levies, and (iii) transfers, each showing separately major classes of transactions within these categories. (91(a))	Expense recognized from: (a) binding arrangements with performance obligations, (b) binding arrangements without performance obligations, and (c) binding arrangements without performance obligations. (129)
Impairment losses recognized on revenue-related receivables or binding arrangement assets (113(b))	No explicit requirements on impairment losses in ED 71.	Impairment of transfer provider's binding arrangement assets (130)
Disaggregation considerations (114 to 115)	Disaggregation is implicitly incorporated into the requirements in paragraph 91(a), as noted above.	Disaggregation is implicitly incorporated into the requirements in paragraph 129, as noted above.

Requirements in ED 70	Requirements in ED 71	Requirements in ED 72
Movement in binding arrangement balances with details such as decreases in opening balances due to the satisfaction of performance obligations (i.e., a rollforward) (116)	Only the ending balances of: (i) receivables from revenue without performance obligations, (ii) liabilities arising from enforceable actions or eligible expenditures, (iii) liabilities from concessionary loans, and (iv) advance receipts are required to be disclosed by 91(b) to (e). 91(f) requires the disclosure of the amount of liabilities forgiven in the period.	See ED 72.139 below; however, this is only required for transfer expenses without performance obligations
Explanation of how satisfaction of performance obligations relates to the recognition of revenue (117)	Accounting policies adopted for the recognition of revenue, including how revenue is recognized as enforceable actions are performed or eligible expenditures are incurred. (92(a))	See ED 72.129 above.
Explanation of significant changes in binding arrangement balances (118)	See information required by paragraph 91 above. Only certain period-end balances and the amount of liabilities forgiven in a period are required to be disclosed in ED 71.	See ED 72.139 below; however, this is only required for transfer expenses without performance obligations
Information regarding performance obligations such as when they are typically satisfied, significant payment terms, etc. (119)	Similar information required through disclosures of: 1) qualitative information on nature and type of major classes of bequests, gifts and donations, showing goods in-kind received separately (92(d)); and 2) information regarding transfers which are received at the discretion of the transfer provider (99).	Information regarding a transfer recipient's performance obligations (131)

Agenda Item 5.2.4

Requirements in ED 70	Requirements in ED 71	Requirements in ED 72
Nature of compelled transactions and amounts not recognized as revenue (120)	Similar requirements as ED 70, but in the context of a price imposed by constitutional authority, legally sanctioned process or other mechanism. (98)	No comparable requirement, as this is a revenue-specific issue
Transaction price allocated to remaining performance obligations (121 to 123)	See paragraph 91(c) above regarding liabilities arising from enforceable actions or eligible expenditures.	Transaction consideration allocated to the resource recipient's remaining performance obligations (132 to 134)
Significant judgements regarding the timing of satisfaction of performance obligations and determination of transaction price and stand-alone price (124 to 127)	Basis of measurement of fair value for major classes of revenue without performance obligations. (92(b)). Qualitative information on revenue without performance obligations that cannot be measured reliably. (92(c) and 97)	Similar information as required by ED 70 regarding significant judgements for transfer expenses with performance obligations (135 to 138) and without performance obligations (141)
Information on assets recognized from costs to obtain or fulfill a binding arrangement, including significant judgements (128 to 129)	No comparable requirement, as disclosure relates to an ED 70-specific issue	No comparable requirement, as disclosure relates to an ED 70-specific issue
Use of practical expedients (130)	Similar information as required by ED 70 regarding the use of practical expedients. However, these requirements in the Transition section. (107, 109)	Similar information as required by ED 70 regarding the use of practical expedients (142)
Similar to rollforward information required by paragraph 116 as noted above.	See information required by paragraph 91 above. Only certain period-end balances and the amount of liabilities forgiven in a period are required to be disclosed in ED 71.	Rollforward of liabilities from binding arrangements for transfer expenses without performance obligations (139)

Agenda Item 5.2.4

Requirements in ED 70	Requirements in ED 71	Requirements in ED 72
Requirements from ED 71:		
No comparable requirement as ED 71, as this is specific to enforceable activities and eligible expenditures.	Information regarding limits on the use of assets imposed by enforceable activities and eligible expenditures. (96)	No comparable requirement as ED 71, as this is specific to limitations imposed by enforceable activities or eligible expenditures to a transfer recipient.
No comparable requirement as ED 71, as this is specific to services in-kind received by a transfer recipient.	Encouraged disclosure of qualitative information on recognized services in-kind, as well as extent to which an entity is dependent on such services for achieving its objectives in the future. (93) (100)	No comparable requirement as ED 71, as this is specific to services in-kind received by a transfer recipient.
Requirements from ED 72:		
No comparable requirement as ED 72, as this is specific to approval of appropriations for the payment of expenses	No comparable requirement as ED 72, as this is specific to approval of appropriations for the payment of expenses	Disclosure of contingent liability arising from transfer expenses subject to approval of appropriations (140)

Agenda Item 5.2.5

Definition of Binding Arrangement

Question

1. The IPSASB is asked to consider Staff's response to a comment raised in the November in-period review regarding the definition of binding arrangement.

Detail

2. Paragraph 7 of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, currently states:

> "A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement."

3. As part of the November in-period review, one respondent noted that, in their view, the definition of binding arrangement does not imply that there needs to be both rights and obligations for both parties to the arrangement, nor does it indicate that the rights and obligations need to be equal. Because of this lack of clarity, the respondent was also uncertain as to why there is no 'binding arrangement' for taxes, fines, bequests and donations.

Consideration of the Definition

4. Staff considered whether to amend the definition to state that "a binding arrangement is an arrangement that confers **both** enforceable rights and obligations on **both** parties to the arrangement…"

5. However, Staff conclude that no change should be proposed due to the following reasons:

   (a) The definition is sufficiently clear on whether both enforceable rights and obligations are conferred, as it refers to "enforceable rights **and** obligations" rather "enforceable rights **or** obligations";

   (b) The reference to "parties to the arrangement" does not specify that the rights and obligations are only conferred to one party or another, so it would be reasonable to read the definition as referring to both parties;

   (c) The definition was not meant to convey that the rights and obligations had to be equal. While public sector entities do not have an objective of making a profit, the requirement for rights and obligations to be equal would imply that a profit can never be earned from revenue transactions with performance obligations, which is not true;

   (d) In the discussion of enforceability in paragraph AG14 of ED70, the exposure draft explains that, "A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement…" The staff is of the view that this statement in the application guidance further reinforces the idea that rights and obligations are conferred to both parties; and

   (e) The definition of a binding arrangement was already discussed by the IPSASB and approved in 2018.

6. Based on the reasons noted above, the Staff does not recommend making a change to the definition of binding arrangement.

Application to Taxes, Fines, Bequests and Donations

7. With respect to taxes, fines, bequests and donations, Staff noted that these would not be binding arrangements due to the following reasons:

   (a) While individuals and citizens are required to pay taxes in accordance to the tax legislation in a jurisdiction, there is no requirement for the government or taxing authority to provide any goods, services or other assets in return to the tax payer;

   (b) Similarly, entities may be required by legislation to pay fines in the event of a breach of certain laws and regulations. Typically, the authority levying the fines are not required to provide any goods, services or other assets in return to the entity paying the fine;

   (c) Bequests and donations are charitable gifts of property from a donor to a recipient and do not require consideration to be paid by the recipient to the donor. In most jurisdictions, bequests and donations are legally implemented through a legal transfer of title, as it is not possible to have a legally binding contract without exchange of consideration in both common law and civil law jurisdictions.

8. As the definition of binding arrangement is sufficiently clear, the Staff is of the view that the above reasons for why taxes, fines, bequests and donations are not binding arrangements do not need to be added to the exposure drafts.

Question

9. Does the IPSASB agree with the Staff's recommendations?

Agenda Item 5.2.6

Examples / Editorials (Including BCs)

Question

1. Whether the IPSASB agrees with staff proposal related to the Editorial Review Process[1].

Detail

2. Several comments submitted in the Comment Submission Template were deemed by Staff to be editorial in nature or related to non-authoritative guidance.

3. Staff have focused on the substantive comments related to the authoritative text[2] in ED 70, ED 71 and ED 72. Staff propose to address the editorial and non-authoritative text comments through the Editorial Review Process, because:

   (a) **Limited Time.** Comments were received by staff up until November 18 and agenda papers were to be posted by November 26, which meant there has been limited time to address the large number of comments received. Therefore, Staff thought it was important to focus the review on the priority items–the authoritative text and Basis for Conclusions;

   (b) **Editorials.** Editorials were for the most part submitted as a mark-up in the ED word documents. Staff thought it was more appropriate to consider both the editorials in the word documents and those on the Comment Submission Templates, through a holistic process;

   (c) **Non-Authoritative Material.** Illustrative Examples (IEs), Implementation Guidance (IGs) and Basis for Conclusions (BCs) are not considered part of each IPSAS; but are rather accompanying material to each standard. Due process relates to the development of the authoritative material in each IPSAS. Therefore, from a Due Process perspective the IPSASB should review the authoritative sections in an ED, but do not necessarily need to do review in full the non-authoritative material. Staff therefore propose that it update the non-authoritative material based on decisions made by the Board at its December meeting, and these changes be reviewed through the editorial review process.

4. Staff notes that although Basis for Conclusions are non-authoritative, they form an important part of the standard in that they communicate the IPSASB thinking on key decisions. Therefore, staff has considered all items related to BCs from the Comment Submission Template and prioritized those changes (even if editorial). This will allow the IPSASB to review and approve these at the December 2019 meeting.

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[1] Editorial Review Process occurs after the consultation document (CP or ED) is approved by the IPSASB for exposure.

[2] The authoritative portion of the EDs is the core text and application guidance. Non-authoritative portion includes the illustrative examples (IEs), Implementation Guidance (IGs) and Basis for Conclusions.

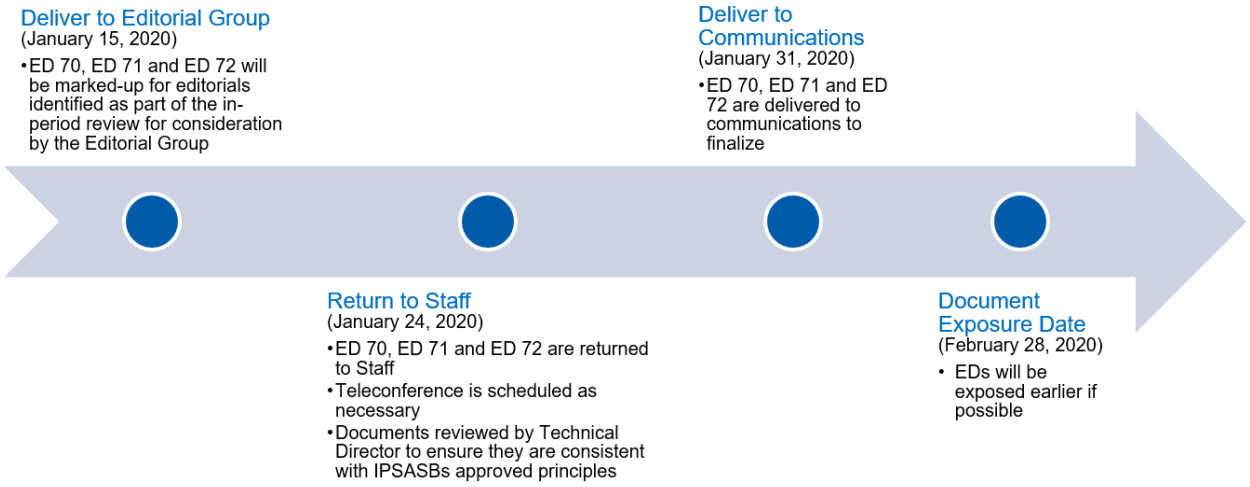
Agenda Item 5.2.6

Recommendation

5. Staff recommend that all editorial and non-authoritative material (except for Basis for Conclusions) be actioned and reviewed through the Editorial Review Process.

Timeline

6. Given the number of editorial comments, Staff recommend the following action timeline.



Decision Required

7. Does the IPSASB agree with the Staff recommendation?

Agenda Item 5.3.1

Comments Templates Submitted

Attached are the unedited Comment Templates submitted and the Staff response noting how these have been actioned.

#	Region	Respondent
01	Canada	Submitted by IPSASB Technical Advisor, Leona Melamed
02	United Kingdom (x2)	Submitted by IPSASB Member, Lynn Pamment Submitted by IPSASB Technical Advisor, Henning Diederichs
03	United Kingdom	Submitted by IPSASB Chair, Ian Carruthers
04	Australia	Submitted by IPSASB Member, Mike Blake and IPSASB Technical Advisor, Clark Anstis
05	Japan	Submitted by IPSASB Technical Advisor, Takeo Fukiya
06	New Zealand	Submitted by IPSASB Member, Todd Beardsworth and IPSASB Technical Advisor, Anthony Heffernan
07	Switzerland	Submitted by IPSASB Member, Marc Wermuth and IPSASB Technical Advisor, Claudia Beier
08	Canada	Submitted by IPSASB Technical Advisor, Renee Picard
09	South Africa	Submitted by IPSASB Member, Lindy Bodewig and IPSASB Technical Advisor, Amanda Botha
10	United Nations	Submitted by IPSASB Observer, Jeriphanos Gutu
11	European Commission	Submitted by IPSASB Observer, Martin Koehler
12	Austria	Submitted by IPSASB Member, Bernhard Schatz
	Consolidated Issues from Comments Templates (For Informational Purposes Only)	

Responded 01

Comment Template

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 71.4, AG7 & AG8	ED 71 is intended to be a catch-all standard for revenue that does not fall under ED 70 (or other sections specified in paragraph 2). However, paragraph 4 may exclude revenue transactions that are intended to be in scope. For example, if performance obligations under a binding arrangement are not distinct, the transaction should be accounted for under ED 71 (per ED 70.AG 35); such transactions would still involve the transfer of goods or services to the purchaser or third party beneficiary. Therefore, recommend deleting paragraph 4 as it does not clarify the scope of ED 71. Paragraphs AG 7-8 could be retained if first 2 sentences of AG 7 are deleted.	Actioned - Scoping paragraphs have been updataed to reflect the interaction between the EDs

Respondent 02

Comment Template

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ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED71	ED71 paragraph 3 makes it clear that the ED/Standard includes transactions from binding arrangements. I am therefore of the view that binding arrangement asset and binding arrangement liability should be included in the definitions and in the ED/Standard (even if reference is then made to ED70). Paragraphs similar to paras 104-108 in ED70 should be included in ED71 In addition, disclosure requirements in paras 116-118 in ED70 should be included in ED71	No action - Binding Arrangement asset/liability concept is not applied in ED 71 because some advance receipts don't relate to a BA. However, a simlar concept is addrssed in paragraph 105.
ED71	ED71 does not include a definition of revenue. Staff explanation for this in the supporting papers is that revenue is not used in ED71. This is clearly not the case and I am of the view that the ED/Standard should include a definition of revenue on a consistent basis to ED70. For me it is particularly important to include this and to make it clear when revenue is revenue rather than contribution from owners (not least because in government and public sector group structures, the owners can ofen be a key source of both revenue and contributions from owners in their ownership capacity.	No action - revenue is defined in IPSAS 1. General IPSAS policy is to define term once. Later IPSAS refer to IPSAS the defintion is defined in

Respondent 02

ED 71	In effect however ED71 is using 'transfer' as a replacement for revenue however paragraph 3 of ED 71 makes it clear that transfers are a subset of the revenue that is in scope for the ED. ED71 includes a definition for transfer but when compared to the definition of revenue it is really similar. I am concerned therefore that the terminology being used in ED71 is not crisp enough. I have reproduced below to illustrate the similarity in definition:	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."
ED 71	Transfers are inflows of future economic benefits or service potential from transactions without performance obligations, other than contributions from owners. Transfers include taxes.	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."
ED 71	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.	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."
ED 71	I think the transfer definition in ED71 needs to be reviewed or deleted. I am in favour of a common definition and terminology wherever possible for revenue and for the scoping section rather than the definition section to be shere it is made clear as to the scope of revenue transactions that are dealt with in the ED/standard. For me, the ED70 definition of revenue could be used in ED71 and the definition of 'transfer' deleted from ED71. An alternative is to use 'revenue from taxes and transfers' or something similar in ED71 but include definitions of both in ED71 and/or include a defintion of revenue in ED71 on a consistent basis to ED70 and then re-define the term	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return.

	transfer with an explanation in ED71 as to how it is used in the ED/Standard (given that it is used in a way that incorporates taxes and transfers).	
ED71	In order to help preparers, I think there would be benefit in ED71 to replicate paras 110-112 of ED70	See Dislcosure Memo – Agendat Item 5.2.4
ED71	ED70 requires disclosure of revenue recognised from binding arrangements that include performance obligations however ED71 does not require specific disclosure of revenue recognised from binding arrangements without performance obligations and instead requires disclosure of revenue by type for revenue that falls within this standard. I am of the view that there would be value in ED71 disclosures making it clearer as to the distinction between revenue from binding arrangements and revenue earned without binding arrangements. This would mean that when ED70 and ED71 are adopted in a set of financial statements, the disclosures would show the major classes of revenue under each of three main types – revenue from binding arrangements with performance obligations, revenue from binding arrangements without performance obligations and revenue without binding arrangements. For me, this would be a clearer set of comprehensive revenue disclosures. It would also mirror the principles of the disclosures in ED72	See Dislcosure Memo – Agendat Item 5.2.4
ED71	ED71 does not include an explicit requirement to disclose impairment losses. For me, impairment losses can occur in ED71 revenue streams and this to me would be a helpful disclosure. I am therefore of the view that the ED70 para 113 type disclosures on impairment losses should be replicated as a requirement in ED71	See Dislcosure Memo – Agendat Item 5.2.4
ED71 and ED72	Disaggregation of revenue/expenditure disclosures. Neither ED71 nor ED72 include requirements on disaggregation of revenue/expenditure disclosures whereas ED70 does in paras 114-115. Given that ED70 only encompasses certain revenue streams, it seems illogical to me to only include these disclosures for part of an entity's revenue. I think that there should either be consistent disclosures to ED70 in both ED71 and ED72 or the disclosure requirements from ED70 should be removed. I am personally in favour of the ED70 requirements being included in ED71 and ED72 as they provide useful information to the reader.	See Dislcosure Memo – Agendat Item 5.2.4 ED 72 – No Action. - The disclosure was included in the draft ED considered by the IPSASB at its September 2019 meeting, and the IPSASB agreed to remove the disclosure.
ED71 and ED72	Movement in balances – ED70 paras 116-119 require specific disclosures of movement in revenue balances. I think there is value in having similar requirements in ED71 on the movement in balances on binding arrangements without performance obligations rather than simply the end balance. I also think that there is benefit in adding similar disclosure requirements into ED72 as these disclosures provide useful information to the reader of the financial statements	See Dislcosure Memo – Agendat Item 5.2.4 ED 72 – No Action. - The disclosure was included in the draft ED considered by the IPSASB at its September 2019 meeting, and the IPSASB agreed to remove the disclosure.

Respondent 02

ED71	Information on assets recognized from costs to obtain or fulfill a binding arrangement, including significant judgements are required in paras 128-129 of ED70. Given that ED71 also includes income from binding arrangements, I think that the disclosure requirements of ED70 should be replicated in ED71 for binding arrangements without performance obligations.	See Dislcosure Memo – Agendat Item 5.2.4
ED71	Incorporating the 'highly probable constraint into ED71 where revenue is uncertain. I question whether this gives the right answer to the recognition and measurement of income in ED71. In particular, I question this when it comes to taxation revenue. I do not agree that should recognise no revenue at all until it is highly probable in the way described in paras 7-9 in the measurement memo on this topic. An entity could be 100% certain that they will get at least $x however the example is suggesting in this scenario no revenue would be recognised at all until an entity is virtually certain it knows the exact amount it will receive. I can think of examples where governments are recognising taxation revenues based on estimation techniques. What is being proposed here could be a significant change in practice and I am not sure it is the right answer. For me, this needs more consideration and work	Agreed - staff to develop non-authoratative example

Respondent 02

Comment Template

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ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
70.8e **70.14** **70.46 + 51** **70.55** **70.120** **70.AG32**	The general point to make is that on the face of it, the standard appears to allow entities to use the probabiliy threshold combined with implicit price concessions to record either certain revenue or reduced revenue amounts without showing impairments. For example, if a electricity supplier is forced by legislation to supply electricity regardless of the customers ability to pay, then a low probability of receiving payment would render this transaction out of scope (8e). Para 14 then stipulates under what circumstances revenue is recognised should any be subsequently be received. If, for example, the customer pays £40 out of say an invoice of £100, the standard I think would allow you to simply record the £40 as revenue (14) but disclose the £60 (para 120). I think if this were challenged ie why not revenue of £100 and impairment of £60, the entity could use a number of paragraphs to justify their methodology such as paras 46, 50 and 51 – price concession. AG32 is interesting since it says that revenue is adjusted for things like price concessions but not bad debts.	No action needed - Impairment relates to losses arising from deterioration after initial recognition. This is consistent with IFRS 9/IPSAS 41 where impairment losses are recognized if there are significant increases in credit risk. Using the example, if it is known upon entering the transaction that only CU1,000 is expected to be collected, the recognition of the additional CU9,000 offset by impairment loss of CU9,000 would not be appropriate, as the CU9,000 never met the recognition criteria to be an asset.

	I think example 7 highlights my point, the normal rate is CU10,000 but you are willing to accept CU1,000 so that is ok. The initial assessment of what amount will be received seems to drive the revenue recognition which could in turn hide poor revenue collection by the entity?	
ED71.57	We discussed to what extent price concessions impacted tax revenues. We concluded that there are sufficient examples of HMRC (government tax collector) having struck deals with companies and indeed individuals (famously with the owner of Harrods, Mohame al Fayed). These deals could end up having the same impact as per the above where the boundaries are blurred between face value and transaction price. Again, a poor tax collector may estimate the transaction price differently to one that is more effective based on the same underlying transactions. We feel that price concessions needs to play a bigger part in ED71 than it currently does.	No Action - non substantive comment. Jurisdiction agrees with the principle. Propose including an example to illustrate the principle in more depth.
ED71.92	This paragraph says 'capital transfers that do not arise from a binding arrangement'. This contradcits the definition of capital transferse in paragraph 9 which says that a capital transfer is an inflow that arises from binding arrangements.	Agreed - pargarph 92 was deleted. A Captial Transfer does not arise from arrangmetns that are not binding arrangements. Paragraph provided no benef
ED71.95	This paragraph states that some capital grants may not specifically identify any enforceable activities or requirement to incur eligibile expenditure. The definition of capital grant states that cash or another asset will be provided with a specification that the transfer recipient acquires or constructs a non-current asset. It would be difficult to envisage that the specification would not include an enforceable activity or requirement to incur eligbile expenditure. The sheer act of buying or constructing an asset would probably satisfy enforceable activity and eligbile expenditure.	Agreed - paragraph 95 was deleted. Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion.
ED72.8	The second sentence in this paragraph states '**Where the binding arrangement imposes performance obligations, as defined in [draft] IPSAS [X] (ED 70), on the transfer recipient . . '.** However, in this context, the performance obligation is only for the transfer recipient to provide goods and services to 3rd party beneficiaries, not back to the resource provider and so only half the definition of ED70 holds.	Agreed. Amended to clarify that only refers to transfers of goods or services to third-party beneficiaries.

Respondent 02

ED72.10	I wonder if it should be made clearer that the binding arrangment only exists if the transfer recipient provides goods and services to 3rd parties. It says so in 10d ie that it is probable but could be made clear in the opening sentence?	Agreed. - Additional text added.
ED72.21a)	As above, could perhaps make it clearer that the promised goods and services are to 3rd parties.	Agreed. - Additional text added.
ED72.69	We struggled to really understand this paragraph.	No Action. - Text mirrors that in ED 70.
ED72.132	This paragraph asks transfer providers to disclose informaiton about the transfer recipients performance obligations. We have two general comments to make: 1) It may be difficult in some aspects for the service provider to obtain the required information from the recipient and in many cases the transfer provider will feel that they have discharged their duty once the payment has been made; and 2) Leading from the last point in 1) above, the recipient will also be required to provide detailed disclosures about the grant/funding programme and how they are accountable for it. So there may well be a duplication of information being provided which a user would have equal access to as they are all government entities.	No Action. - The disclosure applies only to the PSPOA, and the information to be disclosed would be requried to apply that approach. Disclosure requires a description of the performance obligations, which would be available from the binding arrangement. - Re (2), the recipient may be a not-for-profit organization, or the provider an international organization, so the information may not be readily available.

Respondent 03

Comments

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

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ED / Paragraph	Comment	Staff response
	Objective, Scope and Definitions	
ED70 and ED 71	Accounting for transfer expenses and tranfer revenues is an important area for top level and intermediate level governments where there is no guidance on the expense side and insufficent guidance on the income side. To be useful, the defintions, and to the extent possible the accounting need to mirror each other as far as possible. This was discussed in June 2019 when the transfer expense scope and defintion were agreed. Agenda item 12.2.1, para 21 summarised the discussion as follows: '*Transfer expense and transfer revenue are not defined in GFS. Neither term is used in SNA. GFSM uses the term transfer expense once, to refer to expenses from transfers. ESA refers to transfer revenue to refer to revenue from transfers. Staff therefore do not consider that adopting the terms transfer expense and transfer revenue would cause any conflict with the terms used in GFS.'* The diagram in Appendix A showed how the accounting should be mirrored, and proposed the terms 'Transfer Revenue with Performance Obligations' and Transfer Revenue without Performance Obligations'. While there was no formal Board decision or Instruction, the implication of the paper was that this approach should be carried over into both Revenue EDs. However there is no mention of 'Transfer Revenue with Performance Obligations' in ED 70 that I can see, and Transfer Revenue is not defined	Actioned - See memo on transfer revenue / expense. See agenda item 5.2.3

ED / Paragraph	Comment	Staff response
	there, when it should be. There should also be perhaps AG text and certainly BC discussion and Illustrative Examples mirroring and making the links with ED 72. ED71 has exacerbated this lack of mirroring by expanding the definition of Transfers to include Taxation: *Transfers are inflows of future economic benefits or service potential from non-exchange transactions without performance obligations, other than contributions from owners. Transfers include taxes.* No reason for this change is given for this significant change, and it has not been discussed with the Board. Indeed it is actively unhelpful in that it introduces an unnecessary change that could confuse guidance users when ED71 is supposed only to be an update, and it ignores the need for mirroring with Transfer Expenses which should be one of the key project outputs. I would propose that the IPSAS 23 'Transfers' definition is removed and replaced with the term 'Revenue Transfers'. The definition which would be in ED 70 could then mirror the Transfer Expense definition in ED 72 as follows: *Transfer Revenue is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return.* This would then encompass onward transfers / services to third parties under the PSPOA in ED 70, as well as Transfers without performance obligations in ED 71. This would also essentially preserve the current split between Taxes and Transfers in IPSAS 23. There would be multiple consequential changes throughout ED 71. In particular every reference to '(transfer recipient)' after 'reporting Entity would need to be removed.	

ED / Paragraph	Comment	Staff response
	There might also need to be AG text, and certainly BC material to mirror that in ED 70, as well as perhaps Illustrative Examples.	
ED 71 Page 15	The flow chart has been changed without any discussion with the Board or any highlighting to draw attention to this signifiacnt change. The change is significant, because it introduces the assertion that all transactions with binding arrangements, but no perfomance obligations must contain present obligations. This is not a discussion that the Board has had, and nor would I personally feel comforatable to make such a sweeping change at this very late stage. The original version of the flow chart therefore needs to be restored, and an SMC asked instead if this is felt necessary. I accept that there could be some minor wording problems with the bottom boxes in the orginal version of the flowchart, but thes can be easily fixed without this unnecessarily drastic approach.	Agree - flowchart updated to amend for change made
ED 71 Para 72 etc	The Board decided some time back that the use of term 'taxes and other compulsory contributions and levies' was both clumsy and repetitive, and that it should be addressed by a single reference that the term 'taxes' encompassed other compulsory contributions and levies. Therefore all the additional insets made should be removed.	Agreed - the term "Taxes and other compulsory contributions and levies" will be removed. - "Taxes also include other compulsory contributions and levies." will be added as the third sentence to paragraph 28, the first paragraph that explains the defintion of taxes.
ED 71 Scope	ED 71 Scope is currently described as follows: ***The objective of this [draft] Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions without performance obligations (as defined in [draft] IPSAS [X]} (ED 70), Revenue with Performance Obligations)), other than non-exchangefrom transactions that give rise to a public***	Agreed - objective paragraph has been updated based on recommendation provided - scope now reads "The objective of this [draft] Standard is to establish the principles that an entity shall apply to

ED / Paragraph	Comment	Staff response
	sector combination. This [draft] Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions without performance obligations, including the identification of contributions from owners. This is far too convoluted, and I don't see why we need the cross-refence to ED 70 in the scope a performance obligaiton when it will be a defined term. It is certainly confusing and unnnecessarily long-winded. At most I would insert a footnote to make this reference. I suggest a much simpler formulation as follows, which would be more consistent with the objective for ED70: **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 transactions without performance obligations, other than transactions that give rise to a public sector combinations.**	report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising transactions without performance obligations

Respondent 04

Comment Template

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ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 71, para 48	What is the basis for revenue recognition in relation to activities to be completed? Is it only when the activities have been completed, or as the activities are being undertaken? Or does it depend on circumstances?	Agreed - SMC 3 developed "Do you agree sufficient guidnace exists in ED 71 to determine when a present oblgiation is sastisfied? If no why not?
ED 71, para 18, 21	The drafting appeasr to require specific identification of the resources covered by a transfer and their use in undertaking the enforceable activity or eligible expenditure. Such specific identification is either onerous or impossible. Redraft to refer to equivalent amount of resources?	Agree - Staff to consider during the editorial process

Respondent 05

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	Objective, Scope and Definitions	
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SMCs for all EDs	I recommend to provide more SMCs. For example, each BC section can be the good thinking point for readers.	Agreed - additional BCs have been incorporated into the document
ED70, par.112	I recommend to move this paragraph to AG section, otherwise to delete. Materiarity is common notion through a set of IPSAS, and this paragraph just looks duplicating, and i am concerning that the paragraph results misunderstanding for users that materiarity notion is not applied for the other IPSAS without such paragraph in core texts.	No Action - Discussed at the September meeting with the Board.
ED70, par.120	(b) refers to paragraph 13 to 15, however, I recommend to refer only par. 8(e). Because, the information disclosed by the requirement of (b) is not different from revenue those recognised at a point of time, and to require this information may result the unintended burden for the reporting eintity.	Agree - Revised 120 to refer to paragraph 8(e).
ED70, AG32, BC37, BC38	I recommend to delete this paragraph, otherwise to move to ED71. In the case the consideration will not be collected enough, the transaction will not be treated under ED70 but treated under ED 71. (see the flowchert of ED71)	No action needed - At the March and June 2019 meetings, the members who brought up the 8(e) issue noted that the entity providing the

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SMCs for all EDs	I recommend to provide more SMCs. For example, each BC section can be the good thinking point for readers.	Agreed - additional BCs have been incorporated into the document
ED70, par.112	I recommend to move this paragraph to AG section, otherwise to delete. Materiarity is common notion through a set of IPSAS, and this paragraph just looks duplicating, and i am concerning that the paragraph results misunderstanding for users that materiarity notion is not applied for the other IPSAS without such paragraph in core texts.	No Action - Discussed at the September meeting with the Board.
ED70, par.120	(b) refers to paragraph 13 to 15, however, I recommend to refer only par. 8(e). Because, the information disclosed by the requirement of (b) is not different from revenue those recognised at a point of time, and to require this information may result the unintended burden for the reporting eintity.	Agree - Revised 120 to refer to paragraph 8(e).
ED70, AG32, BC37, BC38	I recommend to delete this paragraph, otherwise to move to ED71. In the case the consideration will not be collected enough, the transaction will not be treated under ED70 but treated under ED 71. (see the flowchert of ED71)	No action needed - At the March and June 2019 meetings, the members who brought up the 8(e) issue noted that the entity providing the

	However, AG 32 of ED70 looks to treat such transaction as within ED70 even after it moved to ED71.	good/service is not providing it for free, and that some amount is expected to be collected. This would scope the issue out of ED 71.
ED70, AG92 Last 3 lines	This sentence refers “replacement cost”, however, I believe it is better to use the term “Expected cost approach” in par.78(b).	Agreed - Reference made to expected cost approach
ED70, AG142 and AG143	The reason is explained in BC59, but I wonder non-contractual receivables will occur from the transactions other than revenue without PO. Such as the gain from the selling of PPE. Therefore, my recommendation is to move these paragraphs to IPSAS 1 or to set similar requirements to othe relevant IPSAS.	Agreed - Resolved by simplifying the woridng to more clearly reflect the principle
ED70, BC26	The definition of revenue does not contain “activities”.	Agreed - Paragraph was missing sentence indicating that the IPSASB did not adopt the IASB's definition of revenues, which refers to "ordinary activities". Amended.
ED70, BC53	Is the term “promisor” appropriate in the IPSAS litelature?	Agreed - Replaced with "… binding only for the party to whom the obligation exists.
ED70, IE	The figure and/or table that presents the relashionsip and difference between ED70 (performance obligation) and ED71 (present obligation) must be needed. I had difficulty to explain the complicated relashionship without any figures.	No action required - ED 70 scoping criterion is based on one question. Not necessary
ED71, par.19	I recommend to move following sentence to AG section, otherwise to move to IE/IG section. This example is rather specific and should not be included in this standard section. ***“For example, a transfer recipient may receive funding to conduct a research project whereby any intellectual property obtained from that research will remain under the control of the transfer recipient.”***	No Action - example provided to clarify the text in paragraph 19
ED71, AG48	First 3 lines explaining the recognition of revenue for the usage of non-financial asset and it is also common in our jurisdiciton. The IPSASB should consider “conceptual” rationale for denying deferred recognition of revenue corresponding the usage of assets. In our jurisdiction, capital transfer for the assets used in perpetuity is not recognized revenue but the transfer is recognized as net assets (In	Agreed - pargarph 96 was deleted. Therefore corresponding paragraph AG 47 and AG48 is also deleted. - SMC added asking "Do you agree with the sufficient guidance exists in [draft]

	the IPSAS literature, it would be recognized as “other obligation” in the *Conceptual Framework)*.	IPSAS [X] (ED 70) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?" - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?"
ED71, BC24	Last line refers to ED70, but paragraph 41 of IPSAS 23 is leading to non-exchange transaction. Therefore I think this paragraph should refer to ED71.	No action - it is correct if the compoents cannot be separated the transaction is accounted for under ED70
ED71, BC37 and BC38	There is a duplication in both paragraphs. My suggestion is to delete the last sentence “The IPSASB considered the issue in developing IPSAS 42, Social Benefits.” in BC37	No Action - amendment approved by IPSASB as part of IPSAS 42 project
ED72, par.94-95, 115	These paragraphas are corresponding to ED71 AG43-AG45, and therefore I recommend to move these paragraph into AG section rather than current core text.	No Action. - ED 72 follows the format of the latest IPSASB standards, and requirements for each type of transaction are included in the core text. ED 71 is based on the IPSAS 23 format, which is out of date.
ED72, amendments to IPSAS33	Lack of 154H. It may be the Effective Date paragraph.	Agreed. - Paragraph 154H (effective date paragraph) added [check with ED 70/ ED 71 re numbering]

Respondent 06

ED 70 Substantive Issues

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ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 70.AG142, AG143	We agree that binding arrangements are broader than contracts. However, a contract is a type/subset of a binding arrangement. Using the term non-contractual receivables implies a non-binding arrangement receivable and therefore would not be in the scope of ED 70. Therefore we don't think it is appropriate to use the term non-contractual receivables in ED 70. We suggest paras AG142 and AG143 are reworded something along the lines of the below: **Subsequent Measurement of ~~Non-Contractual~~ Receivables** AG142. <u>After initial recognition an entity shall subsequently measure a receivable:</u> (a) <u>Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or</u> (b) <u>Not in the scope of IPSAS 41 on the same basis as a financial asset at amortised cost in accordance with IPSAS 41.</u> [NB: have not added specific paragraphs in IPSAS 41 because the proposed text (para 69-	Agree - Wording has been updated to reflect suggestion

	70 of IPSAS 41) only dealt with the calculation of the effective interest rate method and not impairment. Therefore the new text has been deliberate in being broad to cover all the requirements of IPSAS 40] ~~that will be settled by future cash flows shall be measured subsequently at amortized cost in accordance with paragraphs 69–70 of IPSAS 41 when:~~ ~~(a) The entity's objective is to hold the non-contractual receivable in order to collect the cash flows; and~~ ~~(b) The terms of the non-contractual receivable give rise on specified dates to cash flows that are solely payments relating to the revenue within the scope of this [draft] Standard.~~ AG143. Where a ~~non-contractual~~ receivable as described in paragraph AG142(b) does not satisfy the requirements in paragraph 40 of IPSAS 40~~AG142~~, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit. If you agree with our proposals, please review and update BC59 where appropriate.	

Respondent 06

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Comments from New Zealand Board Technical Advisor on draft ED 71 Revenue without Performance Obligations (draft ED 71)

Opening comments

We at a high-level are pleased with the direction being taken in draft ED 71.

The move away from the restrictions/conditions approach and a change in focus from return obligations, to a principles-based approach is welcome

The ED introduces a new approach based on whether a revenue transaction without performance obligations has any present obligations (being an obligation to act or perform an activity that has all the same attributes (enforceability and sufficiently specific obligations) as a performance obligation in ED 71, except there is no obligation to transfer [directly] of goods or services to the transfer provider or third party beneficiary).

When considering how ED 70 Transactions with Performance Obligations and ED 71 work together, we feel it is critical to keep in mind the key IPSASB decision previously made – that is all binding arrangements (as defined in ED 70) result in the transfer recipient having a present obligation:

- a subset of revenue transactions with present obligations is transactions with performance obligations (as defined) – these revenue transactions are accounted for in accordance with ED 70;
- all other revenue transactions with present obligations (that do not involve performance obligations) and all revenue transactions without any performance obligations are accounted for in accordance with ED 71, the residual revenue standard.

A key distinction between ED 70 and ED 71 is the principle that all binding arrangements have present obligations, which are either performance obligations (within the scope of ED 70) or other present obligations (within the scope of ED 71).

it is critical that the drafting and structure of the two EDs is consistent with this understanding.

Substantive comments

Our review of ED 71 has been focused on ensuring the key principles are clear and understandable, will be supported as generally accepted accounting practice by national standard-setters and ultimately the preparers and users of financial statements prepared in accordance with IPSAS.

Below we highlighted substantive issues identified. In addition, we have provided drafting suggestions and comments in the draft ED document itself (some of these are discussed below). While some of the drafting suggestions may not be considered substantive in isolation, as a whole the extent of drafting suggestions and concerns highlighted in the marked-up in draft ED provided to staff are considered substantive. If the drafting suggestions are not appropriately addressed this could result in the member withholding his support to approve the EDs. We are pleased to continue working with staff to improve the drafting.

ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 71	**#1 Structure of ED** The proposals in ED 71 include a significant changes in approach from IPSAS 23 and introduces new principles and thinking on revenue recognition for transactions without performance obligations – therefore we feel the ED has moved past a "update" of IPSAS 23 and as a result the structure of the ED should be amended accordingly to allow new principles and requirements to be set out in a manner that will allow for the user of the Standard to follow it through in an orderly fashion.	Actioned • Staff has reflected the proposal in the December Board version. See structuring memo 8.2.3

Given the extent of changes to IPSAS 23, the approach of keeping the ED structure consistent with IPSAS 23 does not work. The ED is a residual revenue standard and proposes two different recognition approaches:

- transactions from binding arrangements (i.e. has present obligations) – recognise revenue as present obligations are satisfied; and
- transactions from non-binding arrangements (i.e. no present obligations) – recognise revenue immediately when the transfer recipient takes control of the resources (i.e. when the definition of an asset is meet).

The structure of the ED should be built around these two approaches and discuss each approach separately.

Independent reviewers in New Zealand who have not been following the project closely noted the structure in ED 71 was "quite hard to follow and jumped around talking about different categorioes of revenue transactions in different sections".

We feel that the flowchart in the ED provides a useful basis for developing the structure of the ED, and where possible and appropriate the structure should be consistent with ED 70 and 72 given the three EDs will be issued as a package.

Reflecting on these comments, we suggest an amended structure be used as provided below.

Draft ED 71 structure	**Recommended structure**
Objective	Objective
Scope	Scope
Definitions	Definitions
Analysis of the Inflow of Resources from Transactions Without Performance Obligations (includes flowchart)	Analysis of the Inflow of Resources from Revenue Transactions Without Performance Obligations (includes flowchart)

	Recognition	Recognition of Assets Arsising From Resource inflows • Recognition of Assets • Contingent assets • Advance receipts • Measurement of assets • Subsequent measurement of receivables		
	Measurement	Transfers with present obligations • Recognition of liabilities • Measurement of liabilities		
		Transfers without present obligations • Recognition of revenue • Measurement of Revenue		
		Measurement of Revenue		
	Taxes	Application of Principes and Requirements • Taxes and Other Compulsory Contributions and Levies • Other Transfers o Capital Transfers o Services in-kind o Pledges o Concessionary Loans		
	Transfers o Capital Transfers o Services in-kind o Pledges o Advance receipts of transfers o Concessionary Loans			

		Presentation • Transfers with present obligations • Transfers without present obligations	
	Disclosures	Disclosures • Transfers with present obligations • Transfers without present obligations	
	Effective Date	Effective Date	
Objective paragraphs	**#2 Objective** The objective of ED 71should be consistent with ED 70 and ED 72 which both include a paragraph on how the objective is met (and ED 71 doesn't), to ensure the three EDs work as a package and are consistent to the extent appropriarte. Suggested drafting below: **Objective** 1. The objective of this [draft] Standard is to establish the principles that an entity (transfer recipient) shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from revenue transactions without performance obligations (as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*). 2. To meet the objective in paragraph **Error! Reference source not found.**, the core principle of this [draft] Standard is that an entity that is a transfer recipient shall recognize revenue transactions without performance obligations as follows:	Agreed - paragraph 2 has been added to state how the objective of the [draft] standard is ach

	(a) for transfers arising from binding arrangements (i.e. those with present obligations), revenue is recognised as the present obligations are satisfied by the entity; and (b) for transfers arising from non-binding arrangements (i.e. those without present obligations), revenue is recognised when the entity takes control of the resources. 3. The [draft] Standard also provides guidance on the identification of contributions from owners.	
Scope paragraphs	**#3 Scope** It is critical that scope is easily understood by preperares so that they understand which standard to use for different types of revenue transactions. It was felt that the scope was not clear until the Application Guidance and Basis for Conclusions was also referred to – we suggest the ED be amended to ensure the scope is clear upfront. Suggested drafting below: **Scope** 4. This [draft] Standard addresses the accounting for revenue arising from transactions without performance obligations, including: (a) Revenue Transactions from binding arrangements with present obligations (but no performance obligations); and (b) Revenue transactions which arise from non-binding arrangements, including but not limited to: (i) Taxes;	Agreed - scope paragraph was added stating "The distinguishing factor between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation is this [draft] Standard, is whether a promise to deliver goods or services to the purchaser or a third-party beneficiary exists. A performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement."

	(ii) Debt forgiveness; (iii) Fines; (iv) Bequests; (v) Gifts, Donations, including Goods In-kind; (vi) Services in kind; (vii) Pledges; and (viii) Off-market portion of Concessionary loans. 5. The [draft] Standard also provides requirements for accounting for capital transfers which may arise from binding arrangements or non-binding arrangements. 6. A binding arrangement as defined in [draft] IPSAS [X] (ED 70) is an arrangement that confers enforceable rights and obligations on both the transfer recipient and transfer provider. In the public sector an arrangement is enforceable when both parties can enforce the rights and obligations through legal or equivalent means. For a revenue transaction without performance obligations, a transfer recipient may enter in an arrangement for the transfer of resources which it considers it can enforce. However, this revenue transaction does not arise from a binding arrangement (as defined) unless the transfer agreement establishes an expectation and/or understanding that the resources transferred will be used in a particular way or that the entity (transfer recipient) will act or perform in a particular way which the transfer provider can enforce. The last paragraph helps explain why an entity's right to receive recources as agreed through a transfer agreement does not result in a binding arrangement – a binding arangement has to involve a two way agreement to transfer resources.	
Definitions	**#4 Definition of transfer provider and transfer recipient**	No action

	The definition of the "transfer recipient" and "transfer provider" are key terms used in explaining the scope of both ED 71 and ED 72. Independent reviewers of the draft standard in New Zealand found the current definitions difficult to understand. The definitions as currently drafted. A **transfer provider** is an entity that provides a good, service or other asset to another entity without receiving any good, service or other asset in return. A **transfer recipient** is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity. We were also concerned that the definitions could untentionally scope out some transactions that are intended to be within the scope of ED 71. For example, an entity (being a Government) could argue that for tax revenue it is not a transfer recipient (as defined) and therefore all tax revenue is outside the scope of ED 71. This interpretation of the scope could be reached because the entity considers that rax revenue is collected and in return the Government provides goods or services to the community – the Government does not have a direct obligation to provide specific goods or services, but many would argue in substance the Government receives tax revenues for which it has an obligatuion to provide goods or services to citizens. This interpretation can be debated, but the point is the current definitions provide scope for different intrepretations and the risk of extended application discussions in practice which is unnecessary and provides no additional benefit. We suggest taking the definitions up a level and removing the complexity.	- Staff agree this is a valid point, within ED 71 the terms are only used for the purpose of identifying the party in the arrangement - however, no change was made. This is because the defintion of Transfer Provider was approved at September 2019 as part of the ED72 document - the defintion of Transfer Recipient was determined to be reciprocal - the definition of Transfer provided is derivied from the GFS definition of a transfer

	A **transfer provider** is an entity that provides an outflow of resources to the transfer recipient. A **transfer recipient** is an entity that receives an inflow of resources from the transfer provider. The definiton of a "transfer provider" and "transfer recipient" in ED 71 and ED 72 are terms used **only** for the purpose of identfying which entity are we talking about – the entity receiving the resources or the entity providing the resources. There is no need for the definitions to get tied up discussing a requirement for a transfer of "goods, services, or other assets from another entity without providing any good, service, or other asset to that entity" within the definition of a "transfer recipient – this principle is addressed by the scope of the standard. We encourage the IPSASB to use the simplified definitons as drafted.	
Definitions	**#5 Including key terms in the definition section of the Standrad** We note that definitions are typically defined in the first IPSAS in which they are used, however these are exceptions to this standard setting rule. We suggest the following two definitions also be added to the definitions paragraph in the ED given their importance to applying the key principles of the standrad. **Present obligation is a legally binding obligation or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.** **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.**	No action - revenue is defined in IPSAS 1 - present obligation is from the conceptual framework (concept is in paragraph 16)
Definitions	**#6 Conditions for a present obligation**	No action

	It is important that the ED explains that a present obligation will only arise for a revenue transaction witout performance obligations when it has all the same conditions of a performance obligation as defined in ED 70, except that there is no requirement for the transfer of distict goods or services. A revenue transaction will only give rise to a present obligation when (1) enforceable and (2) te obligatuons for both the trabsfer receipient and transfer provider are sufficiently specific/distinct. This princple starts to come through clearer in the AGs but not in the core standard itself– given the importance of this prnciple we consider the ED drafting requires improvement. Suggested drafting below: **Present obligations** 7. Where goods, services, or other assets (resources) are transferred in a binding arrangement to the entity (transfer recipient) with the expectation and/or understanding that they will be used in a particular way or that the entity (transfer recipient) will act or perform in a particular way, a present obligation will arise from revenue transactions without performance obligations. 8. A binding arrangement confers enforceable rights and obligations on all parties to the arrangement. In the public sector an arrangement is enforceable when the purchaser is able to enforce the rights and obligations through legal or equivalent means (which includes laws and regulations). Where a binding arrangement with a transfer provider imposes enforceable terms on the use of transferred resources, the entity (transfer recipient) will have a present obligation for obligations yet to be satisfied. 9. A revenue transaction without performance obligations will be considered enforceable and give rise to a present obligation when the arrangement includes:	- agreed a present obligation needs to be enforceable. However, the present obligation does not need to be distinct. That is more consistent with a performance obligation. Present obligations are expected to be less definied and therefore not distinct.

	(a) Sufficiently specific rights and obligations for both transfer provider and transfer recipient; and (b) Remedies for non-performance by the transfer recipient which can be enforced by the transfer provider through legal or equivalent means. 10. In the public sector, identifying transactions with present obligations (which do not involve performance obligations) will often require significant judgment, based on consideration of whether the: (a) Transfer provider has the ability to enforce the transfer recipient to use the resources transferred as provided for in the binding arrangement; and (b) Obligations in the binding arrangement are specific enough to allow the transfer provider to assess when the obligations have been satisfied. 11. If a term in law or regulation or other binding arrangement is unenforceable, it will not give rise to a present obligation. Constructive obligations do not give rise to present obligations. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, establishes requirements for the recognition and measurement of constructive obligations.	

Definitions	**# 7 Use of the terms "enforceable activity" or "elgiable expenditure"** The Draft ED currently provides that for a revenue transactions without any peformance obligations to give rise to a present obligation it must be a transaction that meets the definition of either an "enforceable activity" or "eligible expenditure". We consider that this approch adds another layer of complexity that is not required or useful. Whether a revenue transaction gives rise to a present obligation should be based on weather the definition of a present obligation is satisfied, not weather the transaction is considered an "enforceable activity" or "eligible expenditure". In addition independent reviewers in New Zealand found the definitions of these two categories difficult to interpret and could not easily understand the difference between the two. Instead of using "eligible expenditure" and "enforceable activities" as another layer of criteria for determining whether you have present obligations, these terms could be used as a way of describing the types of present obligations that may arise for revenue transactions without performance obligations. We have provided drafting suggestions to give this effect. In addition we also have an issue with the reference to "enforceable" in "enforceable activities" and not "eligible expenditure", given for a present obligation to exist both the "enforceable activities" and "eligible expenditure" will need to be enforceble. We have therefore suggested that "enforceable activity" be changed to "agreed activity".	Agreed - new concept for the IPSASB to discuss at December 2019 - suggest developing an SMC to address your concern "Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 71), Revenue with Performance Obligations, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?"
	# 8 Recognition of a liability for present obligations The draft ED includes specific guidance on the circumstances in which the definiton of an asset and the recogniton criteria is meet for resource inflows arising from revenue	Agree - guidance added on when a liability is recognized "1. An entity (transfer recipient) shall recognize for a liability that

	transactions without performance obligations – it discusses the two key elements of the definition — the *past event* and the *probable inflow of resources.* However, the draft ED does not include the same level of guidance/discussion of when the definition of a liability and the recognition criteria is meet for resource outflows for revenue transactions with present obligations. This discussuon on the liablity side is critical, the ED should explain how conceptually the definition of a liability is meet for revenue transactions without performance obligations (but with present obligatons). This was a key area of deliberation during Board discussions, a number of respodents to the Revenue and Non-Exchange Expenses CP held the view that an entity can only have a liability from an inflow of resources when the inflow gives rise to an obligation to transfer control of distinct goods or services to the transfer provider or third party beneficiary (i.e. they held the view that a liability only arises from a revenue transaction when you have performance obligations as defined by IFRS 15.) Therefore is is important that the draft ED 71 provide a discussions on what is the *past event* and the *probable outflow of resources* to an external party that results in a liability being recognised for a revenue transaction without performance obligation. This principle/guidance in the core standard should be supported by the Basis for Conclusions. Suggested drafting below: *Past event* *12.* For revenue transactions without performance obligations, the past event resulting in the recognition of a liability for present obligations is the event of both the entity (transfer recipient) and transfer provider agreeing to the enforceable rights and obligations in the binding arrangement. Once the binding arrangement has been entered into by both parties, the transfer recipient has little or no realistic alternative	is within the scope of this [draft] Standard only when it has a present obligation as noted in paragraph 46. In evaluating whether a present obligation exists, an entity (transfer recipient considers whether they are required to perform an enforceable activity or incur an eligible expense. " - guidance added on when a past event occurs "46.52. Public sector entities obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. When the receipt of these assets results in the entity (transfer recipient) having to satisfy a present obligation, the entity recognized a liability. Therefore, the past event that gives rise to an unavoidable obligation is a taxable event or a transfer, when that event gives rise to a present obligation. Transactions or events expected to occur in the future do not in themselves give rise to present obligations."

	to avoid an outflow of resources to fulfil its obligation to use the resources received in a particular way or to act or perform in a certain way. *Probable Outflow of resources* 13. An outflow of resources is probable when the outflow is more likely than not to occur. For revenue transactions without performance obligations, the outflow of resources from a binding arrangement represents the outflow of resources that are expected to be used by the entity (transfer recipient) in fulfilling its obligation to use the resources received from the transfer provider in a particular way or to act or perform in a certain way (i.e. complete enforceable activities or incur eligible expenditure). In fulfilling its enforceable obligations, the entity (transfer recipient) has a present obligation to transfer future economic benefits or service potential to external parties. In fulfilling its enforceable obligations, the entity (transfer recipient) has a present obligation to transfer future economic benefits or service potential to external parties.	
ED 71.95	**#9 Capital Transfers** We note that paragraph 95 of ED 71 provides that: Notwithstanding paragraph **Error! Reference source not found.**, if a capital transfer agreement does not specifically identify any enforceable activities or requirement to incur eligible expenditure, revenue shall be recognized on a systematic basis that best reflects the period of consumption of the capital transfer (e.g., over the period of construction). Our interpretation of this paragraph is that it is permitting an entity to defer the recognition of revenue arising from a capital transfer, when there are no present obligations.	Agreed - pargarph 95 was deleted. Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion.

	This provision is not conistent with the key principles throughout the standard – that is reveneue can only be deferred when there is a present obligation – this paragrapgh should be adjusted or removed.	
ED 71.78	**# 10 Taxation received in advance** In the CP, taxation received in advance of the period in which it is intended to be used was noted as an issue with the application of IPSAS 23. The CP had an SMC on other issues in IPSAS 23 that the IPSASB should consider in an updated IPSAS 23. The NZASB identified modifying the taxable event to a taxable period where the tax is intended to cover a period rather than a point in time. For example, property rates are set before the beginning of the year (this is the taxable event under IPSAS 23) but the rates relate to services provided to ratepayers throughout the year rather than the point at which the rates are levied. Under IPSAS 23 the property rates are recognised at a point in time (when the rates are set) rather than over time. I couldn't see these issues being addressed in ED 71.	No Action • This issue was not prevelent in responses to the CP. Paragraph 89 in ED 71 requires taxes received in advance of the taxation event be recognzied as an asset with a corresponding liability.
ED 71	**# 11 Guidance for licences**. When is the licence, in substance, a tax or the delivery of goods or services? ED 70 has added some guidance and an example on non-IP licence. ED 71 deals with taxes so it would seem appropriate for ED 71 to have guidance on what is the substance of a licence.	No action - licences are adressed in ED70. It is a performance obligation
Disclosures	**#12 Disclosures: Presentation** The disclosures in ED 71 includes no discussion on Presentation as provided for in ED 72. The CP disussed enhanced presentation options for revenue transactions without performance obligations, which was supported by respondents. The development of what an "enahanced presentation" approach has not been included in the draft ED.	See memo

Disclosures	**# 13 Disclosures: Significant Judgements** The disclosures in ED 71 includes no discussion on applying significant judgement as provided for in ED 72.	See memo

Comments on ED 72

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

ED 72 Para	Comment	Staff response
	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
	SMCs	
	SMC1 doesn't flow. It works as a complete sentence, but not in the way it has been split.	Agreed. - SMCs to be discussed with IPSASB
	SMC3 and SMC4 – I don't think they flow from the stub either.	Agreed. - SMCs to be discussed with IPSASB
	Questions about the BCs should be separate questions or subpoints. People might agree with the requirements but not the BCs. Separating the question will make it easier to analyse responses.	Agreed. - SMCs to be discussed with IPSASB
	Order of material	
	I think transfer expenses without performance obligations should be dealt with first. • The requirements are shorter (about 30 vs 80 paras). • Given all the PSPOA requirements, transfer expenses without performance obligations are likely to be more prevalent. I'm a bit worried about the size of the document and the level of detail, although I understand how it has come about. Would it have been possible to rely on the detail in the revenue standard and focus on any differences?	No Action. IPSASB has agreed order of the document, which is intended to mirror the order of the revenue EDs.
	An entity (the transfer provider) Some paras say "an entity (the transfer provider)" and others don't. Some say it for every mention. It isn't clear if there is a policy. Possible policies (in my order of preference) are:	Agreed. - Review Group to consider replacing references to "an entity

ED 72 Para	Comment	Staff response
	• Say upfront once that "an entity" means a transfer provider, unless the standard says otherwise • Add the bracketed explanation for the *first use in each para* • Add the bracketed explanation for *every* use	(the transfer provider)" with "the transfer provider" (suggestion from another review).
	Objective, Scope and Definitions	
	I tried to think through a few examples to see if I could follow the scope. I think I got there, but it took a while. If I've got any of this wrong then I think there is a risk that other readers will get it wrong as well. I'm still not sure about the dividing line between individual services and transfer expenses. • Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole • A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return. What happens if a government pays another entity to deliver training courses: • If the training is for the government itself, then it would be a normal operating expense. Not in the scope of ED 72. It isn't a transfer expense. • If the government is paying for training to be delivered to others (and it isn't an individual service) then it would be a transfer expense. A number of the indicators for the PSPOA approach don't work in this situation. Most likely delivered over time. 35(a) works but 35(b) requires an assessment of the third-party beneficiary's control. If delivered at a point in time: 38(a) and 38(e) could work, but the others require assessments about the third-party beneficiary. What happens if the government provides training to another entity for nothing? • I'm tempted to say that this is an operational expense and outside the scope of ED 72 but I don't know if this is right or how you get there by applying ED 72. Some might be collective or individual services, but if they fail those definitions what happens? What happens in the following dental service examples? • If a government provides dental services directly to individuals via a government department – individual service and outside the scope of ED 72 [But I'm not sure about this. If the government has a contract with the government department could it fall within ED 72 or is it still individual services?] • If a government provides dental services through another entity – transfer expense (decide whether it qualifies for the PSPOA)	No Action. - Performance obligations are defined in ED 70.

ED 72 Para	Comment	Staff response
	If a government provides funding to a charity to meet its operational expenses or do something that doesn't involve a transfer to a third party beneficiary – transfer expense without a performance obligation as per para 89 Capital transfers (this one took me ages to figure out). I didn't get the answer until I read the memo: • They meet the definition of a transfer expense • If it doesn't qualify for the PSPOA, then the transfer provider recognises an expense at the earlier of the point at which it has a present obligation or ceases to control the resources (para 90). • Initially I thought that a capital transfer could qualify for the PSPOA if the transfer recipient built the asset and then transferred it to a third-party beneficiary. BUT, the memo circulated with the EDs says that "A capital transfer does not impose a performance obligation (as defined by [draft] IPSAS [X] (ED 70) on the transfer recipient because there is no requirement to transfer the procured non-financial asset to either the transfer provider or a third-party beneficiary and therefore it fails to meet the requirements of a performance obligation." • But couldn't there be agreements where there is a requirement to build an asset and transfer the asset to a third-party beneficiary? Could those transfers qualify for the PSPOA approach? Definition of a transfer expense – see comments below in definitions section.	
1	See suggested edits for consistency across all three EDs. Suggest bring para AG2 back into the body of the standard.	No Action. - IPSASB decision to include AG2 in application guidance not core text.
2(h)	Income taxes – see comments on paras 101 and AG101 –AG108. It wasn't until I got to AG102 that I could understand what was in and out of scope of this ED.	See comments on paragraph 101 and amendments there.
7	The following key definitions should be in this standard, even though they are used in other standards. There is a precedent for doing this (in IPSAS 34 to 38). • transfer provider • transfer recipient • eligible expenditure	No Action. - IPSASB decision to use cross references and avoid repetition, despite precedent.
7	Definition of a transfer expense – Scope issue:	No Action.

ED 72 Para	Comment	Staff response
	• A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return This definition does not seem to differentiate between: • the reporting entity incurring an expense when it provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return [out of scope of ED 72?]; vs • the reporting entity transferring a resource (a good, service, or other asset) to another entity (without receiving any good, service, or other asset in return) for the other entity to provide services for other third party beneficiaries [within scope of ED 72?] Does the definition of a transfer expense need to spell out the types of transactions that are caught by the definition eg A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return: • For the other entity to provide a good, service, or other asset to a third party beneficiary; or • For the other entity to undertake enforceable activities and/or incur eligible expenditure; or • Other transfers eg debt forgiveness etc ???	- The definition covers different types of transaction, which are then addressed as transfer expenses with or without performance obligations.
	Transfer Expenses with Performance Obligations	
9	**Are the assessments possible?** Para AG25 says that the standard has been developed taking into account the *information that is expected to be available to a transfer provider* but I wonder if all the assessments are possible/reasonable. The PSPOA requires that the transfer provider make assessments about control of resources by the transfer recipient *or the third party beneficiary*. I'm not sure that the transfer provider will have information to be able to make those assessments. In order to apply these requirements they might need to make assumptions or identify (in contracts) the trigger points for transfer of control. Para 49 says that, for the purpose of determining the transfer consideration, the transfer provider can assume that the transfer recipient will transfer the goods and services in accordance with the binding arrangement. Do we need more of these assumptions? See also comments on paras 28, 34, 38.	No Action. Agree that the resource provider will need information from either the transfer recipient or the beneficiaries, but without this it is difficult to see how the binding arrangement will be enforceable. Memo to be developed.

ED 72 Para	Comment	Staff response
	Paras 32 and 38 of ED 72 takes assessment of control from the other party's perspective to the extreme in requiring the transfer provider to assess the third party gaining control rather than from the transfer provider's perspective as reporting entity of losing control of the asset/resource. Para 90's concept of loss of control is better:	
28	I think the assessments required by this para about the benefits or service potential to the third-party beneficiary could be onerous. Do we need some more assumptions like para 49? Could an entity assume this until you it has evidence to the contrary?	See memo – Agenda Item 7.2.5
34	Can the transfer provider make such assessments? The option in para 32 might help	See memo – Agenda Item 7.2.5
38	Para says "To determine the point in time at which a third-party beneficiary obtains control of a promised asset and the transfer recipient satisfies a performance obligation…" Can the transfer provider make this assessment?	See memo – Agenda Item 7.2.5
77(b)	A reviewer couldn't understand the residual approach in para 77(b)	No Action. - Wording mirrors ED 70.
101	Initial thoughts Income taxes – I don't understand how this para works with para 2(h) which excludes income taxes. A number of IPSAS (eg IPSAS 4.59 and IPSAS 18.38) refer to the international standard dealing with income taxes. How will these two sets of requirements work together? Is the entity always immediately entitled to a refund? Why does 101 say "for the purpose of applying this Standard"? Is it a transfer expense or not? Thoughts after having read AG102 AG102 says that taxes paid and payable are transfer expenses and a transfer provider accounts for them as follows. • income taxes paid or payable in accordance with international or national standard. • Payroll taxes …. IPSAS 39 *Employee Benefits* • *Other taxes paid or payable* in accordance with AG103–AG108. I didn't get this message when I read para 101. See also comments about AG103	Agreed - Paragraph (new 99, old 101) amended to clarify that income taxes and payroll taxes are outside the scope of these requirements.

Respondent 06

ED 72 Para	Comment	Staff response
119	Statutory payables – I'm confused about why this is in this standard if it isn't a transfer expense. See also BC66. I went round in circles trying to fit this together.	No Action. - See other comments on this paragraph – IPSASB decision to include here.
	Disclosure	
	Are the proposed disclosure requirements onerous? They might make sense for the transfer recipient but, if a public sector entity is buying goods and services though a number of other entities, they could lead to pages of disclosures.	No Action. - IPSASB has agreed disclosure levels; see also Disclosure memo
	Should there be disclosure requirements about significant judgements in deciding which standard to use for transactions? ie in deciding whether something is a transfer expense or not?	No Action. - See Disclosure memo
	Application Guidance	
AG103 – AG108	This para talks about the generation of revenue as an example – might be a bit confusing to constituents given that income taxes are outside the scope of the standard. AG107 also talks about revenue generation. Maybe this is consistent with the wording in IFRIC 21 *Levies*. Is the statement in AG108 intended to apply only to those taxes within the scope of the standard or to all prepaid taxes?	Action. Wording is consistent with IFRIC 21, Levies, which discusses revenue generation. AG wording follows IFRIC 21, Examples have been amended so most examples discuss other forms of taxation, e.g., property taxes. No changes to this wording. Reference to prepaid tax giving rise to an asset has been updated to refer to taxes within the scope of the ED – other taxes would follow other Standards.
	Implementation Guidance	
	No comments – but due to time constraints I only skimmed this section.	No Action

Respondent 06

ED 72 Para	Comment	Staff response
	Basis for Conclusions	
	Editorial suggestions in the ED	Action - Some editorial changes made.
	Amendments to Other IPSAS	
	Some comments in the ED	Action - Some editorial changes made. IPSAS 24 amendments to be raised with the IPSASB.

Respondent 07

Comment Template

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IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	Comment	Staff response
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 71.2 a	Rewording: ~~A~~ public sector combination that ~~is a non-exchange transaction~~ are accounted for in accordance with IPSAS 40 => a reference to non-exchange transaction seems to be contraproductiv to the aim of the IPSASB to substitute the distinction exchange/ non-exchange by arrangements with/ without performance obligations	Agree - the following will be removed from the end of paragraph 2(a) "that is a non-exchange transaction"
ED 71.3-5	The chronical order of 3-5 should be the same as in the scope section of ED 71.2 a-c. First – public sector combination (5) Second – Revenue from transaction with performance obl (3-4) Third – contribution to owners (6-7)	Agree - the ordering of paragaph 2 has been updated to reflect the ording of the paragraphs 3-7
ED 71.8	Where a distingusish between compentents with and without performance obligation is not possible, a reference to ED 70.AG70-71 is not suitable. ED 70.AG70-71 is only suitable if there is a transaction with distinguishable transactions. Instead the sentence in BC24 (“however, if the components cannot be separated the whole transactions should be accounted for unter ED 70.”) should be included in ED 71.8.	Agreed - AG70 and 71 of ED 70 apply when a transaction can be separated into its components. ED 71.8 should not reference these paragraphs. - the last sentence of paragraph 8 was removed.

ED / Paragraph	Comment	Staff response
	Furthermore, I suggest another solution which is in line with the solution in IPSAS 23. The transaction should be accounted under ED 71. The mayority of the transaction in the public sector are without performance obligations therefore its more suitable to refer to ED 71. At least an explicit PV should be included in the ED.	
ED 71.96	Capital transfer transactions are only linked to the obligation of construction or purchase of the non-financial asset and not for any additional obligations.	Agreed - captial tranfers are linked with the procurement or construction of the asset
ED 71.AG 20	There should be included the exception for capital transfers where not all obligations are relevant for this standard (e.g. ED 71.96 additional obligation regarding subsequent use of an asset).	Agreed - paragraph 96 is removed - SMC added asking "- SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?""
ED 71.AG 33/ 34	AG 33 requires every year end to update its assessment of amounts for which it expects to be collected. AG 34 states: “since estimating revenue is only required once the entity can determine …” It seems that these statements are inconsistent.	Agreed - paragraph AG34 was removed
ED 71.AG 35ff.	As the reference is to paragraph 97 these chapters should be arranged after AG 48.	Agreed - Structuring to be updated
ED 71. Subtitle of AG 42	The reference should be to paragraph 51 instead of 52.	Agree - Reference updated
ED 71. Subtitle of AG 42	There subtitle should be clarify that only non-cash assets are discussed in the following chapters.	No action - AG42 discusses monetnary and non-monetary assets
ED 71.AG 42	There should a reference to “transferred non-cash assets”. Cash assets are measured at its transaction price (ED 71.50).	Agreed - terminology to be updated
ED 71. Amendments to IPSAS 40.	The term “grants” seems no longer suitable. It should be changed to “transfers”.	Agree - the term grant will be replaced with transfer throughout

Respondent 07

ED / Paragraph	Comment	Staff response
IE 164		
ED 71. Amendments to IPSAS 41.2 j	The term “non-exchange revenue transactions” should be changed to “transactions without performance obligations”. Renaming was made e.g. ED 71. Amendments to IPSAS 41.37	Agree - the term non-exchange will be replaced with no performance obligation throughout
ED 71. Amendments to IPSAS 41.87	The term “exchange revenue transactions that are within the scope of IPSAS 9” should be changed to “transactions with performance obligations in the scope of ED 70”.	Agree - the term exchange will be replaced with performance obligation throughout
ED 71. Amendments to IPSAS 41.AG6	The term “conditions” should be changed to “other obligations”.	Agree - Reference to be updated
ED 71. Amendments to IPSAS 41.AG33	The reference to IPSAS 9 should be changed to ED 70.	Agree - Reference to be updated
ED 71.BC26	The sequence should be always “Transaction price or fair value” and not “fair value and transaction price” in referring to ED 71.50 & 51.	Agreed - wording to be updated
ED 71.BC 30	I’m not sure if the statement is correct or not: “In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable …” ED 71.105 is referring to “the transfer arrangement is not binding”. Enforceability is only an action in a binding arrangement but there are more actions required that an arrangement is binding.	No Action - funds received in advance of a taxable event, or binding arrangement taking place may need to be returned
ED 71. Example 12. IE 26	To be clear a sentence referring to “when the agreement becomes binding” like in IE 40 should be added.	Agree - Examples will be updated as follows - IE26, "under the terms of the bindng arragement agreement" - IE27, "…recognizes the transfer as an asset when the arrangement becomes binding"
ED 71.	The term “grants” seems no longer suitable. It should be changed to “transfers”.	Agree

Respondent 07

ED / Paragraph	Comment	Staff response
Example 12		- Term will be updated to transfers
ED 72.3	Should not mentioned that concessionary loans are excluded from the standard as they are dealt in IPSAS 41?	Agreed. - Although strictly not necessary (as with a loan there is a repayment to the provider, and the transaction is therefore not a transfer expense), staff agrees that the additional clarity will be helpful.
ED 72.32	I don't understand the last sentence. Maybe the sentence could be shortened to: "An entity (the transfer provider) may determine the point at which the third-party beneficiary obtains control of the asset by reference to the transfer recipient losing control of that asset ~~where the entity (the transfer provider) has more reliable information to make this assessment.~~"	Agreed. - Text deleted.
ED 72. after 96	I would suggest to add a paragraph to prepayments as in ED 71.105 to be more consistant between the standards. Acctually there is only ED 72.AG94.	No Action. - AG93 explains why a payment in advance of an obligation to make the payment would usually be recognized as an expense – treatment may not be symmetrical with ED 71.
ED 72. Amendments to IPSAS 42.IG 2	Is the category "exchange or non-exchange transaction" still suitable. Shouldn't it be changed to transactions with/ without performance obligations? Shouldn't concessionary loans be included in the table?	Agreed. - Table amended
ED 72.Example 4.IE 17 & IE20	I believe improving the "unemployment rate" is demanded instead of "unemployment".	Agreed. - Changes made
ED 72. Example 13.IE85	It belongs in ED 70 as it describes the revenue accounting and not the expense accouting.	Actioned. - Example amendded to refer to the transfer provider recgonizing an expense.
ED 72. Example 14.IE89	The accounting of the department of sience should be in the focus as it records the expenses. I'm not sure if the reference to the suppliers performance obligations helps to understand the principle.	No Action.
ED 72. Example	The bookkeeping should be clearify if the revenue recorded over time or at inception.	No Action. - Wording indicates interest revenue is

Respondent 07

ED / Paragraph	Comment	Staff response
21.IE121 b)		recognized over time (during … from … to …)
ED 72. Example 21.IE145	In the last sentence should be refered to "expenses" and not revenue: "… ans recognised ~~revenue~~ expenses for the transaction processing services as …"	Agreed. Change made
ED 72. Example 37.IE205	The principle/ clarification in ED 72.IE205 should be included in an AG or in the standard as it is very important. Otherwise there is a risk, that the arrangement will be included in the f/s. "… would not present the transfer provider's binding arrangement asset and the payable on a gross basis in the statement of financial position because … does not at that point have a present obligation."	No Action. - Core text refers to a present obligation. Example is too specific for core text.

Respondent 08

Comment Template

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ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 71	Editorical comments – See attached marked up version in following paragraphs - Core text: 17, 96, - BCs: BC9, BC20, BC22 - Illustrative examples: Ex 12	No action - edits will be done as part of editorial process
13-14 (AG20-27)	Enforceability General comment – Applying the concept of enforceability to public sector transactions without performance obligations raises different challenges that may not typically arise in transactions with performance obligations. I believe the concept of enforceability is an instrumental part of the standard and it could benefit from being further articulated.	No Action - agree applying the concept of enforcability may be different for revenue without performance obligations, however the concepts are consistent whether applied to revenue with or without performance obligations.
	First, the Staff scoping memo states that the concept of enforceability in ED 71 is the same as in ED70. However, ED 70 (paragraph 9) acknowledges that a binding agreement can be implied by an entity's customary practices. This specific element has not been retained in ED 71 (para 13-14 or AG20-27). Furthermore, para 14 of Draft ED	Agree - the concept of enforcability is consitent between ED 70 and ED 71

	71 brings forward from the old IPSAS 23 (para 16) the fact that constructive obligations do not arise from enforceable activities. There may be a tension here between ED 70 and ED 71, if one believes that an obligation arising from implied customary practices could be a form of constructive obligation. I could not find a Board decision on this specific aspect, was this done on purpose? Have we properly reconciled the principles in ED 70 and ED 71 as it relates to "implied practices" vs "constructive obligations"? If we are not retaining this aspect of ED 70, then does this mean we are defining a binding agreement differently in ED 71 versus ED 70? And if so, should this be further clarified in ED 71?	- Text from paragraph 9 of ED 70 has been inserted into ED 71 paragraph 14 to enhance this consistency.
	The 2nd sentence reads oddly. Its essentially says that if a term is uninforceable, it is not enforceable (i.e., an enforceable activity or eligible expeniture). Sentence does not had value, appears circular. Consider re-wording to clarify the point, or removing.	Agree - the paragrph will be updated to indicate "does not give rise to a present obligation (enforceable activity or eligible expenditure)…" - change was required because adding the term enforceable activity appeared circular given the use of "unenforceable" immediately before.
20	I find this paragraph confusing. I am struggling to understand how the requirement to incur an eligible expenditure is not by definition (or in substance) a form of enforceable activity. Isn't the act of incurring an eligible expenditure an activity enforceable by the transfer, and therefore a form of enforceable activity? In other words, wouldn't any enforceable activity eventually lead to an eligible expenditure? These two concepts are first introduced in para 13. But the relationship (or the distinction) between the two may require to be clarified and further articulated. For instance, we many want to consider whether it would be more logic to consider that the requirement to incur eligible expenditures is part of (or similar to) an enforceable activity.	No Action - staff agree this is a valid point - an SMC was developed asking "Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?"
19 & 21	These two paragraphs address the same matter, i.e. enforceable activity and eligible expenditures result in present obligation but not performance obligation. The two paragraphs are written differently, but trying to make the same point. They are also redundant. When we read para 19, we are left wondering "so what"? the "so what" is stated in para 15-16 where we say that a present obligation is created despite the	No Action - staff agree with the point, however at this juncture are hesitent to make structural changes that do not ehance the clarity of

	requirements of a performance obligaiton not being met. So to clarify and streamline the text, I suggest you combine 19-21 into one idea and move this idea up with para 15-16, under the heading “present obligation” to make the point that while enforceable activity and eligible expenditures are not performance obligations as defined in ED70, they are present obligation for the purpose of ED71.	the ED. do you have a more suitable proposal?"
23	For this example to work properly, a suggestion is to remove the part (b) to keep it specific to the need to build 1,000 new housing units.	No action - example is trying to illustrate if the entity has discretion in how to allocate the funds, deferal is still appropriate. As such, 2 options are necessary
	If we are retaining the concepts outlined in old para 20 and 22 of IPSAS 23, I suggest that we add a new illustrative example showing a scenario where the transfer terms would not be considered to have substance.	No action - see example 23
	Enforeability of binding arrangements – substance over form First, as currently written, draft paragraph 23 mainly repeats content of paragraph 18 and does not add new useful guidance.	No Action - staff agree with the point, however at this juncture are hesitent to make structural changes that do not ehance the clarity of the ED.
	General comment – There may be a need to further flush out the substance of a transfer term versus its form. While a transfer term may technically be enforceable, if it merely repeats an existing obligation of a recipient as stated in its mandate/objective, then it should not be considered to have substance, as explained in para 20 and 22 of old IPSAS 23. There is relevant guidance explaining this important nuance in old paragraphs 20 and 22 of IPSAS 23 that has not been retained.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. As such, whenever a present oblgiation is created, a liability exists.
	Old para 20 is useful to clarify that it is necessary to consider the substance of the term of a transfer agreement and not merely its form. It provides a useful example that the mere specification that a transferred asset is required to be consumed to provides goods and services is in itself not sufficien to give rise to a liablity. I suggest that we retain old para 20.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. As such,

		whenever a present oblgiation is created, a liability exists.
	Old para 22 relates to the fact that for the term of an arrangement to have substance, it must result in a present obligation that is required as a consequence of the term itself, which cannot merely exist in form. In other words, a term in an agreement that requires an entity to perform an action that it already has no alternative but to perform (without the transfer agreement) may lead the entity to conclude that the term of the agreement does not in substance impose on the recipient entity a present obligation. Put another way, if a term is merely repeating a recipient's existing obligation, it should not be considered to be enforceable in substance.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. As such, whenever a present oblgiation is created, a liability exists.
	Illustrative Example 10 – this scenario imposes the social housing entity to use the cash transfer to increase its housing stock by 1,000 units or support its social housing objectives. This term is very broad and in the end is asking the entity to perform an action that it already has no alternative but to perform accounting to its mandate/objective. If we agree with the guidance in old para 22 stated above, this example is not helful in illustrating the substance of an enforceable transfer requirement.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. As such, whenever a present oblgiation is created, a liability exists.
	EI.21 – While expenditures incurred to support its housing objective may be considered "eligible expenditure" per the term of the transfer agreement, such term should not be considered to have substance as it only repeats an existing obligation of the recipient according to its stated objective.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. As such, whenever a present oblgiation is created, a liability exists.
92	Capital transfers Questioning the logic and alignment of this paragraph with the definition of a capital transfer. Here we refer to "an outflow or resources from capital transfers that do not arise from a binding arrangement", but the defintion of capital transfer says that it must arise from a binding arrangement. May need to re-work this paragraph to find a way to avoid referring to a "capital transfer".	Agreed - pargarph 92 was deleted. - a captial transfer does not arise from arrangments that are not binding arrangements. Paragraph provided no benefit and was confusing.

95	Not clear what the intent of this parapgraph is. By definition, a capital transfer must include a specification to acquire or construct an asset. The scenario in para 95 therefore seems impossible, or misaligned with the defintion. If we are in the presence of a capital transfer, it is because we have established that the agreement include a specification to acquire/construct an asset, and therefore how could such a specifciation not be an enforceable activity to incure eligible expenditures? We sould consider clarifying. I anticipate this will be confusing to readers. Also, I don't see an illustrative example for this scenario. If I am missing something and this scenario is in fact valid, we should consider an example to clearly illustrate its intent.	Agreed - pargarph 95 was deleted. - Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion.
AG48	We should consider more clearly articulating the reason why the requirement to use an asset once constructed/purchased is not resulting in further deferring the capital transfer subsequent to the procurement of the asset. As currently written, there is no priciple-based rational provided. One possibility is to acknowledge that any requirement stated in a transfer agreement that merely repeats a recipient's obligation that already exists under its stated mandate or objective does not have substance and is therefore not arising from the transfer itself. This rational is aligned with my comment above under para 23, under the heading: stanbstance over form.	Agreed - pargarph 96 was deleted. Therefore corresponding paragraph AG 47 and AG48 is also deleted. - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?" - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?"
BC21	I question the accuracy of the last sentence stating that under IAS20, a capital transfer would never be classified as revenue. I think this statement is only true for capital transfers treated as a reduction of the carrying amount of the related asset (i.e. capital approach). But in the case of capital transfers treated as deferred income (i.e. income approach), the amortization of the deferred income would be reflected as grant	Agreed - last sentence removed

	revenue on the profit and loss statement. At least, this is how we are treating this in Canada. I see two main reasons why IAS20 generates a different accounting result. The first is, as metioned above, when a capital transfer is treated as a reduction of the carrying amount of the related asset. The second, when treated as deferred income, it gets amortized over the useful life of the asset (slower recognition overtime), rather than being recognized as enforceable activities are satisfied or eligible expenditures are incurred (faster recognition). I find these two main differences could be made clearer in BC21.	
IE #10	Example 10 – [Document ends]	No action

Respondent 08

Comment Template

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	Comment	Staff response
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED72	Transfer expense subject to appropriations	
ED72, Par. 97 ED71, par. 36	I question how the second sentence is worded. It ties the assessment of the substance to whether the provider "is prohibited from transferring" the resources until the appropriation is approved. When annual appropriations are at play, a transferer will always be prohibited by law to transfer funds until appropriations are approved. The nuance here is that while a contractual clause creates a prohibition from a legal perspective to transfer funds, there may be other curcumstances and past practices that indicate the substance is different. The point being that, while the legal or contractual prohibition exists, it is whether from an accounting perpsective, it is the proper basis for recognition of a liability/expense (for transferor in ED72) or asset/revenue (for recipient in ED71). One way to address this may be to re-word the second sentence in para 36 of ED71 and para 97 of ED72 as follows:	Agree - To be considered as part of the Editorial Process with respondent

	ED71, para 36 – When a binding arrangement specifies that the resources to be transferred to the entity (transfer recipient) by a transfer provider are subject to the approval of ~~the~~ a future appropriation ~~being approved~~, the entity (transfer recipient) must consider substance over form. While ~~The~~ a limitation (that the resources to be transferred are subject to the approval of ~~the~~ a future appropriation~~being approved~~) may exist, ~~has substance if~~ there may be sufficient evidence to support that the entity (transfer ~~provider~~ recipient) has gained control over ~~is prohibited from~~ the transferred~~ing the~~ resources ~~until the appropriation is approved~~. ED72, para 97 – ~~Where~~ When a binding arrangement specifies that the resources to be transferred to a transfer recipient by an entity (the transfer provider) are subject to the approval of future appropriation ~~being approved~~, the entity (the transfer provider) must consider~~s~~ substance over form. While a ~~The~~ limitation (that the resources to be transferred are subject to the approval of a future appropriation ~~being approved~~) may exist, ~~has substance if~~ the entity (the transfer provider) ~~is prohibited from~~ may in substance have lost discretion to avoid the transfer~~ring the~~ of resources ~~until the appropriation is approved~~.	
ED71, AG29 to AG32	Consistent with comments above, I suggest we re-work this section. It is not about whether a provider is prohibited or not to transfer funds. With annual appropriations needing legislative approval, a government is always prohibited to transfer funds until legislative approval is received. It is whether despite the legal prohibition to wait for annual appropriations which always exist, the government has obtained the enabling authority to implement a multi-year program and has exercised that authority through signature of an agreement with a third party recipient. For accounting purpose, this nuance must be considered and assessed. If you agree in principle, I can offer assistance to re-work. I first would like to know if you agree.	Agree To be considered as part of the Editorial Process with respondent

ED72, AG96 to AG100	Same comment as above for AG29 to AG32 … I suggest that we re-work these AGs. If you agree in principle, I can offer assistance to re-work. I first would like to know if you agree.	Agree To be considered as part of the Editorial Process with respondent
ED72, Par. 97 ED71, par. 36	Editorial suggestions – I suggest as shown above in the proposed revised text, that we add the word "future" in front of "appropriations" in the first and second sentences to make it clear that we are talking about a future event. I also made other editorial suggestions above to bring consistency between the two paragraphs.	Agree To be considered as part of the Editorial Process with respondent
ED71, par. 36	Illustrative example – there is no specific example to address the appropriation matter. The closest is example 23, which deals with the substance of a transaction being different from its form. But the appropriation scenario is unique and may warrant its own example as is the case in ED72. I suggest we create a new example that is the mirror of example 35 in ED72, as modified for my comments below.	Agree To be considered as part of the Editorial Process with respondent
ED72, illustrative example 35	I question whether this scenario is effective at illustrating the challenges seen in practice. Appropriations are commonly approved annually as part of a government's annual budgetary cycle. The challenges seen in practice are when a parliament or legislature approves an enabling legislation to allow a government to implement a multi-year program. A good example would be a program aimed at supporting the development of infrastructure in a country – say for $500M over a 10 year period. A first legislation would be passed to enable the government to create the program and enter into infrastructure grant agreements with qualifiying recipients. Say the government enters into an individual grant agreement with a recipient for $10M to construct new local infrastructure over a 5-year period. That agreement has a clause stating that the $10M will be awarded in 5 annual instalments of $2M over a 5-year period. The agreement includes a clause stating that annual instalments of $2M are subject to the approval of future annual appropriations. The recipient then uses this commitment from the government to execute the infrastructure project, on the expectation that the future annual instalments of $2M will be received. In this case, the cause was added to the agreement to acknowledge Parliament's authority to approve annual appropriations. However the same Parliament has already provided	Agree To be considered as part of the Editorial Process with respondent

	authority to the government to proceed with a multi-year program to improve infrastructure for a total cost of $10M. in this case, because Parliament has provided authority to the government to enable the program and that such authority has been exercised by the government through the signature of an agreement with the recipient, the clause "subject to future appropriation" may not have substance for accounting purposes because the government has lost discretion to proceed with the $10M grant over a 5-year period through entering into a contractual agreement with the recipient. IE185. This paragraph starts with the entering into an agreement with a recipient. But in practice, this is typically step 2 (the execution of the authority received from legislation). Step 1 in a typical scenario is that legislation is first approved to enable the government to design and implement a new multi-year program to reduce air pollution for a total cost of $XX over X years. For the scenario to be effective, it should first articulate the existance of an enabling legislation for a program, then bring in the execution the enabling legislation through signature of an agreement with a recipient. IE187. I believe here we are confusing "incurring" of an expenditure, which is an accounting concept, with "payment or transfer of funds" to a third party, which is what annual appropriations relate to. in jurisdictions where annual spending must be approved through annual appropriations, the government cannot make payments before the appropriations are approved. Transferring funds prior to an appropriation being approved would be unlawful. Annual appropriations relate to payment authorization, which is different from the incurrance of an expense for accounting purposes. So the conclusion is not whether the government is prohibited from transferring funds, it is whether despite being prohibited to transfer funds, it has lost discretion to avoid transfer of future payments. For the example to be useful, it must convey that nuance. IE190. In a jurisdiction where legislative approval of annual appropriations are necessary for a government to transfer funds, it is not possible for a government to transfer fund prior to the annual appropriations being approved. So this paragraph needs to be modified. What is possible is for the government to enter into a multi-year	

	commitment to transfer funds in the future. This nuance is not coming across in this example. IE188 & IE 191. I also think in these two paragraphs we need to move away from "prohibited from transferring …" In summary, I suggest we re-work the entire example. If you agree with my perspective, I would be happy to assist in re-drafting this illustrative example. But first, please let me know if we agree in principle, and then I can invest additional time to assist with the drafting.	

Paragraph	Comment	Staff response
1	Footnote 1 in paragraph 1 indicates that 'goods and service or goods or services may encompass non-current assets'. There are areas in the text where assets are specifically mentioned alongside goods and services, e.g. the definition of a 3rd party beneficiary. We propose reviewing the references to assets in the text and assess if they should be deleted.	No Action - The anonymous authority wording (use of "may") in the footnote was specifically crafted to not contradict the definition of third-party beneficiary, as the definition needs to fit within all three exposure drafts.
5 and 6	References are made to a 'binding arrangement with a purchaser'. Should these refer to 'a binding arrangement with performance obligations'? While we accept that the wording in the equivalent paragraphs in IFRS 15 refer to a 'contract with a customer', the wording was changed to a 'contract with performance obligations' elsewhere in ED 70. To have both terms 'binding arrangement with a purchaser' and 'binding arrangement with performance obligations' may be confusing.	Agree - Updated
5	It is unclear how paragraph 5 interacts with paragraph AG70 and AG71. Paragraph 5 refers to applying the requirements in the other standards first, and then applying ED 70. For transactions with non-exchange components, AG70 and AG71 says ED 70 should be applied and the remainder in ED 71. These two paragraphs seem to outline conflicting requirements These paragraphs also seem to conflict with paragraph 8 of ED 71. Paragraph 8 refers to first applying ED 70 and then ED 71. Either paragraph 5 should be revised to align with the other paragraphs, or it should be made clear that these paragraphs do not deal with hybrid transactions.	No Action needed in ED 70 - ED70 refers to applying "hybrid" transactions using other standards first, and if there is no guidance on how to split the transaction in the other standard, apply ED 70. This is consistent with the revised paragraph 8 of ED 71.
7	*Control* It is unclear why a definition of control has been added. There are two issues with including the definition of control:	No Action needed - Definition is needed as ED 71 and ED 72 refers to "Control" as defined in ED 70.

Paragraph	Comment	Staff response
	• The current definition/description of control in existing IPSAS is not exactly the same as the definition. • Because this definition is not consistent with existing literature, it is likely to cause confusion with other Standards where control is used for recognition of assets. Paragraph 32 adequately explains the concept – no definition is needed. *Contract* The definition of a contract should include a reference to willing parties to be aligned to IPSAS 41.	- The wording is unchanged from IFRS 15/ED 70; this is just a movement of text.
7	It is unclear why a definition is needed for 'third-party beneficiary'. This idea is sufficiently explained in the application guidance.	No Action needed - Inclusion was based on a specific decision made by the IPSASB.
7	It is unclear why a definition of a customer is needed – it is the same description as for a purchaser. Consider deleting.	No Action needed - Inclusion was based on a specific decision made by the IPSASB.
26(a)	The last sentence of paragraph 26(a) seems to introduce a new threshold, i.e. that the goods or services provided need to contribute to the purchaser's service delivery objectives when assessing whether economic benefits or service potential arise from the good or service. We believe it is sufficient to simply state the following: "A purchaser can generate the economic benefits or service potential from the good or service transferred to a third party beneficiary if they are transferred to a third party beneficiary". There seems to be an overemphasis on the third party beneficiary – as these arrangements exist in IFRS 15, we do not believe that another assessment/threshold is needed.	No Action - The wording clarifies that the economic benefits or services potential can also be generated when dealing with third-party beneficiaries. There is no reference to another threshold or assessment. - The IPSASB also agreed to the text at a prior meeting.
37(b) and (d)	We are of the view that a reference to a third party beneficiary should be included in relation to the transfer of legal title of an asset, as well as the transfer of risk and rewards. It is possible that the legal title to	Agree - Updated

Paragraph	Comment	Staff response
	the asset transfers to the third party beneficiary rather than the purchaser, as well as the risks and rewards of ownership being transferred to the third party beneficiary.	
37(e)	We are of the view that the reference to a third party beneficiary should be deleted in relation to the acceptance of the asset. As this is a contractual term between the entity and the purchaser, it is unlikely that the third party beneficiary will be able to indicate its acceptance of the good or service in a way that binds the purchaser.	Agree - Updated
120	The proposed disclosure only focuses on those transactions that do not meet the recognition criteria. To understand what value is being 'given' away, it may also be helpful to request disclosure on those transactions where price concessions exist for reduced consideration received by the entity. The first sentence should also refer to both the purchaser ability and intention to pay (consistent with paragraph 8(e)). This is a pervasive comment across the text.	Agreed - Revised 120 to refer to paragraph 8(e), so both amounts that are recognized and not recognized will be captured.
AG10	Part (a) refers to 'sufficiently specific rights and obligations' – this is not discussed in any detail in the paragraphs that follow. What would constitute 'sufficiently specific'.	Agreed -Should be "distinct".
AG13	The paragraph indicates that if there is no binding arrangement, ED 71 is applied. It is unclear how the requirements of ED 71 can be applied if there are no enforceable rights and obligations in the arrangement. ED 71 requires that an entity demonstrate control of resources for recognition. An entity would find it difficult to demonstrate control in the absence of enforceable rights and obligations and/or no binding arrangement at all.	No action needed - ED 71 would require day-1 recognition if there is no binding arrangement. (e.g. for donations, the entity would recognize revenue in its entirety once it has obtained control of the assets.)
AG19	The paragraph indicates that "On its own, this authority does not establish enforceable rights and obligations…" This seems very specific and may vary from jurisdiction to jurisdiction.	No action needed

Paragraph	Comment	Staff response
	Paragraph AG 11 also indicates that enforceable rights and obligations could arise from a contract as well as other means. There seems to a conflict in the wording of AG11 and AG19 as AG19 indicates that on their own they do not establish enforceable rights and obligations.	- The paragraph is stating that a government cannot use their legislative authority as an enforceability mechanism unless it is already stated in the agreement that they may use it.
AG21 and AG22	These paragraphs indicate that the potential reduction of funding can be considered if they exist in other agreements. It is inappropriate combine or read together the terms and conditions of separate agreements. We also generally do not believe that the types of arrangements that have 'future funding' will necessarily be in the scope of ED 70 as there is a clear purchase of goods and services in exchange for consideration in the arrangement. The reference to future funding may be confusing of purposes of understanding the scope.	Amended wording - We were informed by constituents that their agreements specifically refer to other agreements. Will clarify in wording
AG24	The paragraph explains the accounting for a constructive obligation. It is unclear why it is needed.	No action required - This was a specific item discussed at the March 2019 IPSASB meeting and the addition was in response to the resulting board decision.
AG25	We do not believe that an entity should consider past practice in deciding what rights/obligations are enforceable. This is inconsistent with the principles in other standards. E.g. IPSAS 35 on rights demonstrating control – it does not matter if an entity does not exercise certain rights, what matters is that they exist.	No action required - Consideration of past practice in the determination of enforceability is directly from IFRS 15.10. - The same concept also exists in IPSAS 23. - Furthermore, consideration of past history, such as voting patterns at previous meetings, are considered in IFRS 10/IPSAS 35.
AG32	We have the following comments on this paragraph: • The 2nd sentence refers to: "..but it is generally not reduced for the expectation of bad debts…". The term 'generally' should be	Staff response for each item: - Agree to change wording

Paragraph	Comment	Staff response
	deleted. Bad debts are not included in the initial measurement of receivables in IPSAS 41. 'Bad debts' should also be changed to 'credit losses' or 'impairment losses'. • The 3rd sentence refers to '…an entity expects to accept a lower amount…' This should be modified to say – the reference to 'expects' should be deleted. • In reading paragraph 11-15 and AG 32, it is unclear when an entity accepts a price concession, and when the recognition criteria are not met and the transaction is subject to re-testing. This should be explained in the application guidance and basis for conclusions. • This paragraph also only refers to an entity's 'ability' to pay for the goods and services rather than both the intention and the ability.	- Agree to change wording - If there is enough information to conclude that a price concession exists, the 5-step model is applied and there would be no need to "re-test" - Agree to change wording
AG70	When reading paragraph AG70, it was difficult to understand what the rebuttable presumption is. The way that we understand these two paragraphs, is that the transaction price should be allocated to goods and services, unless there is a public sector transaction where the funding has a dual purpose. As a result, we suggest moving the first sentence to the start of AG 71 and explaining that this is when the presumption may be rebutted.	Agreed - Moving the first sentence of AG70 to AG71.
AG71	It is unclear what principle this paragraph is articulating. The idea of a 'return of a portion of transaction price' is difficult to understand. The reference to a 'return' implies an advance receipt of consideration, which may not always be the case. Based on the existing steps, it is likely that the non-exchange component would be identified when allocating the transaction price to the performance obligations. What is required is to indicate that if there is a significant 'residual' after the allocation of the transaction price, that the residual is accounted for in ED 71. We would also indicate that where there are components to be identified, applying the residual method may not be appropriate.	No action required - If the consideration is not paid upfront, it is highly unlikely that any entity would pay for an event that has been cancelled - The Task Force noted that the use of any measurement-based separation criteria (e.g. use of fair values and residual amounts) would be difficult to apply due to the subjective and entity-specific nature of the amounts. The use of a black and white separation criterion, such as whether the binding arrangement explicitly allows a return of funds, would avoid this issue.

Paragraph	Comment	Staff response
AG78	We suggest adding in a reference to the binding arrangement in the 5th line: …promised in the binding arrangement to the purchaser".	No action required - Wording was previously approved by the Board and was from IFRS 15.
AG92	It is unclear why it would be difficult to determine the stand-alone prices of a performance obligation simply because there are third party beneficiaries. As a result, we are uncertain why this guidance is needed. We suggest deleting the paragraph. If the paragraph is retained, we have the following comments: • It is unclear who the resource provider is in the arrangement. • The last sentence indicates that the where the prices of the goods and services cannot be estimated from market information, then replacement cost is used. When allowing alternative measurement bases, there is usually a threshold, e.g. if it is impracticable to do X, then an entity can do Y *or* if a reliable estimate cannot be made using X then an entity can do Y. The last sentence simply says if an entity 'cannot' – this is an inadequate threshold. We suggest including an appropriate threshold indicating when an entity is not required to use market information.	Agreed - This issue was raised specifically in the June 2019 meeting. The concern was that one could set stand-alone price at zero if only the consideration received directly from the third-party beneficiary (i.e., nothing) is considered in the determination of stand-alone price. This has been flushed out in the BCs. - Reference to resource provider has been changed in response to another constituent's comments. - Reference to replacement cost already changed to expected cost approach based on another constituent's comments. This is a measurement basis that is already in ED 70, so it does not need creation of a "threshold".
AG115	The guidance in this paragraph simply says to apply the requirements of the Standard. This is not helpful and underestimates the complexity of these transactions. There is a high degree of judgement needed to apply the principles, e.g. if a licence is needed to undertake a certain profession, arguably some of the fee could relate to professional services received, while some is for funding the regulation of the profession. How should entities deal with these situations.	No action needed - The Task Force agreed that no new principles were introduced and how to apply the principles to non-IP licenses would be the same as other types of binding arrangements. As a result, the Task Force decided to only include an illustrative example.
AG142 and AG143	*General – placement of guidance*	**No action**

Paragraph	Comment	Staff response
	We do not believe that it is appropriate to discuss the subsequent measurement of receivables in the revenue Standard. *General – use of amortised cost* When the Consultation Paper requesting views on accounting for statutory receivables predates the issuing of IPSAS 41. Many of the principles for amortised cost and impairment have changed significantly. It is therefore unclear whether constituents will have the same views given the complexity in the new approach. It would be useful for the staff to present a paper to the board outlining (a) how the new IPSAS 41 requirements will apply to transactions that are not undertaken in a market, (b) how all the complexities will be dealt with in the new ECL model for transactions that are not contractual, (c) is there sufficient information about credit risk + its management to apply the new ECL. Applying the full ECL model may not be appropriate – a simplified version may be appropriate for statutory receivables (e.g. always a lifetime approach, and only estimate cash flows using historical data). *Uncertainty over requirements in IPSAS 40 to be applied* AG142/AG143 simply refer to applying amortised cost in paragraph 69 – 70 of IPSAS 40. What does this mean? Only in determining interest, or also impairment losses? It is also unclear whether purchased originated credit impaired requirements will need to be applied to these receivables. How will derecognition be applied? Will any disclosures from IPSAS 30 be applied? There are no consequential amendments proposed in ED 70 to IPSAS 30. What transitional provisions apply for the measurement of non-contractual receivables?	- *Developed an SMC as part of ED 71, "Do you agree with the IPSASBs that receivables within the scope of the standard should be subsequently measured in accordance with IPSAS 41"* - *wording on receivables balances have been amended to be more simplified in explaining the principle*

Paragraph	Comment	Staff response
Basis for conclusions	As a general observation, much of the basis for conclusions refers to administrative changes that are generally processed as part of the 'rules of the road'. In the past, a comparison has been included at the end of an IPSAS indicating high level terminology and other differences. It is not necessary to explain differences in examples or simple wording changes in the basis for conclusions. Examples include BC12(c), BC14, BC19, BC20.	Agreed to add rationale on changing to performance obligation-approach. However, the remaining BCs, including the "administrative changes" were specific Board decisions and Staff was instructed to draft BCs for each point.
	We do not believe that the basis for conclusions adequately explains the rationale for changing the delineation of transactions to those with, or without performance obligations. Simply saying that the Board proposed in the CP and constituents agreed does not explain the conceptual rationale for the change. The basis for conclusions should adequately explain why/how the change in approach better contributes to providing information to hold entities accountable and make decisions.	Agreed to add rationale on changing to performance obligation-approach. However, the remaining BCs, including the "administrative changes" were specific Board decisions and Staff was instructed to draft BCs for each point.
BC12	The paragraph should be amended to refer to consistency changes because of existing definitions and terminology in the existing IPSASs.	Agreed -Wording added
BC16 and BC 17	We do not believe that the text explaining the reason for the change to binding arrangements is consistent between the text and application guidance. The BC focuses on the fact that entities may not be able to contract in their own names. The text focuses on both how the transaction arises and that this may not be a contract, as well as how the rights and obligations are enforced. We believe that the BC should be updated to discuss both how the transaction arises as well as how the rights and obligations are enforced.	Agreed -Wording added
BC18	IFRS 15 includes third party arrangements. It should be clear that this is not a departure from IFRS 15, but that these transactions are more	Agreed - However, IFRS 15 does not explicitly discuss a third-party beneficiary, as this concept was only referred to in the IASB's

Paragraph	Comment	Staff response
	prevalent – and the desire to include certain 'non-exchange' transactions in ED 70. It should also be explained what the third party's role is in the transaction, i.e. that it is not a party to the binding arrangement, but merely a beneficiary. BC 18 should also be modified to indicate that a third party beneficiary could be an entity, rather than just an individual or a household.	educational materials. The BCs will be amended to say that ED 70 highlights the concept more explicitly as it is much more prevalent in the public sector.
BC32-BC40	The BC should explain when an entity keeps retesting transactions and when a price concession exists.	Agreed - See explanation noted in response to constituent's questions on AG32.
BC57	See comments above on AG 92 – the same comments apply to the BC.	Agreed - amended to refer to the expected cost approach
BC58	The paragraph does not say anything more than the text in the application guidance. The BC paragraph should explain the issue and why the Board came to a particular conclusion.	Agreed- reworded to say that no need principles or application guidance would be needed to be developed

Paragraph	Comment	Staff response
General: Binding arrangement	The scope of ED 71 makes a distinction between transactions that have performance obligations in binding arrangements, and transactions where there is no binding arrangement. BC9(b) indicates that transactions without binding arrangements include taxes, bequests, fines, and donations.	Agreed - New sentence added to the end of BC9 stating "while these transactions may not arise from binding arrangements, they may be a result of another arrangement such as legislation"
	We note that the definition of a binding arrangement (in ED 70) is drafted in a neutral way to indicate that the arrangement (a) confers rights and obligations to the parties to the arrangement, and (b) that the rights and obligations should be enforceable. The definition does not imply that there needs to be both rights and obligations for both parties to the arrangement, nor does it indicate that the rights and obligations need to be equal. We are therefore uncertain why there is no 'binding arrangement' for taxes, fines, bequests and donations. For example: for a tax collection agency, the agency has a right to levy taxes, and the taxpayer has an obligation to pay. Both the right and the obligation are enforceable through tax law. The same applies for donations: the donor has an obligation to pay, and the recipient has a right to receive.	No action - Agree with the point, however, ED70 has been locked down and tentatively approved by the IPSASB in June 2019 - AG14 talks about a Binding Arrangement conferring enforceable rights and obligations on all parties to the arrangement. As this is an approved definition, no change made
	One of the key criteria for accounting for transactions in ED 71 is demonstrating that an entity has control of a resource. It would be very difficult to demonstrate control if there is no 'binding arrangement'.	No action - when resources with no binding arrangement, the recipient controls the resources immediately
	If the staff/Board are of the view that the definition of a binding arrangement should be interpreted differently, then we believe that there would need to be a modification made to ED 71 to indicate that although there is no binding arrangement as envisaged in ED 70 (and explain why), then it should be clear that there is another legal arrangement that governs these arrangements. This does however become quite complex as ED70.AG11, and ED71.AG18 both	No Action - statutory arrangements can be binding arrangement when the legislation creates enforceable rights and obligations on both sides of the arrangement (example - in Canada we have Carbon Pricing where amounts are paid to the federal government and legislation requires they are redistributed to citizens through an income tax credit).

Paragraph	Comment	Staff response
	indicate that 'binding arrangements' include those that arise from statutory and other mechanisms.	- not all statutory arrangement are binding arrangements when they don't create rights and obligations for both parties (income taxes are paid, but no requirement to spend on anything particular)
General: Structure	Paragraphs 31 to .71 outlines the general principles to be applied in accounting for revenue without performance obligations. Paragraphs .72 to .107 then seem to explain how these principles are applied to certain transactions, such as taxes and transfers. We are of the view that the guidance in paragraph .72 to .107 is more suited in the application guidance to ED 71.	Agreed - guidance has been restructured to better highlight the type of guidance being provided. Sections on revenue from Present Obligations, Revenue without Present Obligations and specific guidance. - see structure memo for more details
General: Guidance on taxes	The guidance on taxes is dispersed throughout the proposed Standard, for example paragraphs .28 to .30 and again in paragraphs .72 to 80. We recommend that consideration should be given to combine the guidance into a single section dealing with taxes. It should also be considered whether there should be such a clear emphasis on taxes, as taxes are just one type of revenue without performance obligations applies.	No action - Paragraphs 28-30 are general guidance, paragraphs 72 and 80 are specific to taxes
General: guidance on advance receipts	In reading ED 71, we noted that guidance on advance receipts is addressed in a number of sections (for example paragraph .26 and paragraph .105). We propose that all the guidance advance receipts should be addressed in one section.	No action - Paragraphs 26/27 are general guidance, paragraphs 80 and 105 are specific to taxes and transfers
General: Guidance on determining transaction price	We question whether the guidance on determining the transaction price applies to revenue transactions without performance obligations arising from binding arrangements as well as to those that do not arise from binding arrangements. There seemed to be inconsistences between paragraphs 50 and 51 and the text on the specific transaction types from paragraph 72 onwards.	Agree - Guidance has been updated and structure is consistent with ED70. All transactions in scope of ED71 are now measured at transaction price. For non-monetary items, the transaction price is the fair value.

Paragraph	Comment	Staff response
	We propose that the application of transaction price should be clarified as part of the considerations on the structure of ED 71.	
1	Both the objective and scope (paragraph .02(a)) explains that public sector combinations are not dealt with by this Standard. A further explanation is then provided in paragraph .05. We propose that the reference in the objective paragraph should be deleted.	Agreed - reference combination has been removed - addressed in conjunction with other objective paragraph comments
3(b)	This paragraph explains that transfers are an example of a transaction without a performance obligation. However, many transfers (such as donations) may have performance obligations, and therefore not all transfers will be accounted for in terms of ED 71. ED 71 should be clarified to explain that when transfers have performance obligations, the principles in ED 70, rather than ED 71, should be applied to account for the transfer. We also propose that a similar explanation be included in ED 70.	No action - by definition transfers do not have performance obligation as they are one way transactions (no requirement to provide anything in return)
4	Propose deleting “where control of the resources is maintained by the entity” as the distinction between transactions in the scope of ED 70 and ED 71 is about the transfer of goods or services to a purchaser. We also do not believe that the reference to ‘control’ is appropriate, as an entity could maintain control over resources in performance obligations for a period of time before being used to deliver goods or services. We suggest amending the paragraph as follows: “Revenue transactions without performance obligations are transactions where there is no requirement to transfer any goods or services to a transfer provider or third party-beneficiary. ….. “ Similar amendments should be made to paragraph AG7.	Agree - proposed wording has been incorporated in to paragraph 4

Paragraph	Comment	Staff response
4	The explanation in the second sentence “whether they will remain within the entity” could be clarified to focus the explanation on the fact that revenue received can be used at the entity’s discretion.	Agree - added "at their discretion" after "how the resources will be used"
8	It is unclear how this paragraph interacts with ED 70 (paragraph 5, as well as AG70 and AG71). *Paragraph .08 of ED 71 and paragraph .05 of ED 70* Where transactions are dealt with in other IPSAS, ED 70.05 refers to applying the requirements in the other standards first, and then applying ED 70. It is unclear if this guidance is meant to deal with ‘hybrid transactions’ or other transactions with performance obligations with components. The interaction between paragraph .05, AG70/AG71 of ED 71, and paragraph .08 of ED 71 will need to be reconsidered. *Paragraph .08 of ED 71 and paragraph ED70.AG70 and AG71* ED 70.AG70 indicates that there is a rebuttable presumption that an entity will be able to allocate the transaction price to the goods or services. ED70.AG71 indicates that where the presumption is rebutted, the entity should disaggregate the transaction price into its components.	No Action - ED70.5 requires other standards be applied if a component is separable. If not apply ED70 - ED71.8 requires ED70 be applied if the components cannot be distinguished Action - remove reference to AG70 and AG71 in paragraph ED71.8. The reference requires applying AG 70 and AG 71 when the component is not separable. However, AG70/71 apply when the component is separable.
8	While ED 71.08 indicates that the separation into components is required, it indicates that when it is not possible to distinguish between the components with performance obligations, and without performance obligations, the transaction is accounted for in accordance with ED 70. We have two comments: • ED 70.AG70 and AG71 do not acknowledge that there is a default accounting position as described in ED 71. • It is unclear why the default accounting for a transaction with components is ED 70 and not ED 71. It is likely that the	No Action - ED 71.8 indicates to apply ED 70 is bifurcation is not possible. ED 70 requires the application of ED 70 if separation is not possible. No inconsistency.

Paragraph	Comment	Staff response
	accounting in ED 71 is more appropriate to these scenarios. Apart from the inconsistencies between ED 70 and ED 71 on this matter, the 'default' accounting should be reconsidered.	
8	ED 71 currently does not include any separation principles that could be applied to hybrid transactions and does not provide guidance on how any residual should be accounted. We propose that the guidance on hybrid transactions should be aligned with the guidance (and our proposed comments) on paragraphs AG70 and AG71 in ED 70.	No action - paragraph 8 references AG 70/71 in ED70
9	The last sentence clarifies that ED 71 provides guidance on the identification of contributions to owners. The recognition and measurement of contributions from owners are not dealt with in ED 71. The definition of transfers of transaction price specifically excludes contributions from owners. We question this exclusion of contributions from owners in these definitions as the objective of ED 71 already clarifies that contributions from owners are not dealt within ED 71. We therefore propose the deletion of the reference to contributions from owners in these definitions.	No Action - agree conceptually with the point. However, as definitions may be applied in other standards, whether contributions from owners are included or not is necessary
9	*Reference to good, service and another asset* The definition of a transfer recipient and transfer provider refers to the 'transfer of a good, service or another asset'. The concept of 'other asset' is not included consistently when reference is made to the transfer of goods and services (for example paragraph .04). ED 70 includes a footnote to explain that goods and services may encompass non-current assets.	Agreed - reference to be added as a footnote in paragraph 4 - footnote is based on footnote in ED70

Paragraph	Comment	Staff response
	We propose that consideration should be given to the inclusion of a footnote similar to that in ED 70, and that the text in ED 71, where assets are specifically mentioned alongside goods and services, be reconsidered for consistency with ED 70.	
9	*Other compulsory contributions* In our view, the last part of the definition which refers to "used in the provision of specified government programmes" is very broad. From our reading of the basis for conclusions, these contributions are limited to contributions to "social security and similar schemes". We propose that "of specified government programs" be amended to "of social security and similar schemes".	No Action - based on a consequential amendment from IPSAS 42. IPSASB approved
9	*Transfer price* Delete the reference to "other than contributions for owners". Editorial: Include "expects <u>to</u> be entitled to in …"	No Action - "contributions from owners" definitions are required to be applicable across multiple standards - "to be" is consistent with ED70, no change made
9	*Transfer provider* As a good, service or another asset can also be provided to an individual, we propose that following amendment: "…….or other asset to another entity or <u>an individual</u> without….)	No action - an individual is included in the concept of an entity
12	We propose that, in the example, "plant" should be amended to "asset" and that the reference to other asset-related IPSAS be included in addition to IPSAS 17, i.e. IPSAS 12, 16, 27 and 31.	Agreed - Changed to "asset"
13 and 14	We question the difference between enforceable activities and eligible expenditure. Both concepts result in an outflow of economic benefits and service potential and we propose that the concepts should be combined as	No Action - staff agree this is a valid point - an SMC was developed asking "Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 70),

Paragraph	Comment	Staff response
	they have similar outcomes. If both activities and expenditure are retained, we believe that the examples provided of eligible activities and eligible expenditure should be modified as they do not clearly illustrate the distinction. For example, in paragraph 17 “constructing a hospital” and “undertaking research” are given as examples of activities but they also both require incurring specific expenditure. Equally in AG11 the reference to ‘marketing’ in the context of eligible expenditure could be seen as an activity.	Revenue with Performance Obligations, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?"
14	As the last and second last sentences deal with liabilities rather than revenue, we propose that it should be deleted.	No Action - enforceable activities and eligible expenditures are present obligations, therefore liabilities. As such a cross reference to IPSAS 19 is necessary for constructive obligations.
15	The principle explained in this paragraph should be expanded with the explanation included in BC12. The paragraph currently does not explain how the arrangement may result in an outflow of resources where the transfer recipient cannot avoid using the resources to fulfil the binding arrangement requirements, or in the event of a breach.	Agreed - text from the last two sentences from BC12 has been added to the end of paragraph 15 to enhance the discussion of the principle
21	We propose that “or incur another form of penalty” in the last sentence should be deleted as it is a subsequent event rather than explaining a present obligation.	No Action - IPSASB decision the outflow of resources could either be fulfilling the requirements of the binding arrangement or reimbursement or other penalty in the event of a breach
25	This paragraph deals with a presentational issue and should rather be included in the section dealing with disclosures.	No Action - staff agree with the point, however, ED71 currently does not have a presentation section. Paragraph remains as is for now
26	The paragraph refers to a present obligation arising only when a future event occurs, e.g. when a matching contribution is found in an arrangement. The paragraph explains that a present obligation only arises once this event occurs. We note that this contradicts the	Agreed - paragraph removed to avoid inconsistency with 21 because it recognizes a contingent asset which goes against the principles of revenue recognition

Paragraph	Comment	Staff response
	current wording in paragraph 21 (and elsewhere) that refers to a penalty giving rise to a return obligation. If the reference to a 'penalty' is retained (see comments on paragraph 21), then the wording of this paragraph may need to be reconsidered to assess if it is consistent.	
Diagram	We note that a similar diagram is not included in ED 70. It may be useful to develop a diagram for ED 70 explaining the linkages with ED 71.	No action - IPSASB agreed to align with the concepts of IFRS 15 as closely as possible. No public sector reason to develop a flow chart (flowchart helps with scoping of both standards)
	We also note the following regarding the diagram: • The first block indicates 'does the inflow…' – consider changing this to 'resource' as there may not be a flow (e.g. a right to receive a resource when a binding arrangement is concluded). • There is no discussion on hybrid transactions in the flow chart. We propose that the diagram should also explain the accounting considerations of dual/hybrid transactions as these are currently not addressed in the diagram.	No action - IPSASB has agreed to the flowchart, only fatal flaws addressed
	We noted that ED 70 does not provide any guidance on the disclosure of the increase in an asset where the definition of an asset is not met (first block on the right). The reference to paragraph .39 is incorrect as this paragraph explains that when the definition of an asset is met, consideration should be given to provide disclosures of a contingent asset. The block on the right is meant to deal with scenarios where the definition of an asset is not met. We propose that the fifth block on the left should make reference to "performance obligations <u>as defined in ED 70</u>".	Agreed - paragraph reference will be removed

Paragraph	Comment	Staff response
36 (AG32 and BC15)	The paragraph explains that the limitation has substance if the transfer provider is prohibited from transferring the resource until the appropriation is approved. There could also be a limitation if the resource can only be used from a point in time. The point of approval and point at which the entity is entitled to the resource may differ. We propose that the difference between appropriations approved and appropriations to which the entity is entitled to, should be clarified in this paragraph.	No Action - the requirements of the paragraph require you to consider the jurisdictional specifics, limitations based on timing may be considered part of the approval process
37	We propose that this paragraph should be expanded to explain that the entity has a right to enforce the receipt of the transfer, otherwise the principle could be misunderstood to indicate that the past event for transfers is the actual transfer of cash.	No Action - paragraph 37 indicates the past event may be a purchase, taxable event or a transfer. This is not designed to be a comprehensive list, nor do any of examples imply waiting until cash is received
38	We question the requirement in this paragraph that requires the transfer recipient to assess probability of past experience with similar transactions. ED 70 requires entities to not recognise revenue until it is probable that the entity will collect the consideration it is entitled to in exchange for goods or services through retesting. ED 70 also allows for price concessions when, based on published policies or specific statements that it will accept an amount that is less than the price stated in the binding arrangement. It is unclear how an entity should apply the probability criterion in ED 71. Would no revenue be recognised, or would the amount that is probable be recognised (and/or when a price concession is offered)? We propose that either the guidance should be explained or an approach similar to that in ED 70 (i.e. that in paragraph .08 of ED 70).	Agree - brought across paragraphs 8(e), 13, 14 and 15 from ED 70 detailing when to recognize revenue when the probability criterion is not satisfied - these paragraphs have been inserted in the asset recognition section (paragraph 38-41)

Paragraph	Comment	Staff response
41	Propose that reference should be made to "…in laws and regulations and other binding arrangements" (as in par 42) – binding arrangements already includes laws and regulations. We have noted several similar inconsistencies and suggest that the wording be reviewed.	Agree - wording will be updated
44	The paragraph should be modified to explain that an advance receipt can also arise if the entity is not yet entitled to the resources.	No action - wording is from IPSAS 23. Limited scope to change unless there is a fatal flaw
Heading to paragraph 50	Propose amending the reference to 'cash transfer' to 'Acquisition of monetary assets'.	Agreed - change will be reflected
50	Propose changing 'A cash asset' to a 'A monetary asset'.	Agreed - change will be reflected
Heading to paragraph 51	Proposed changing the heading to "Non-monetary assets"	Agreed - change will be reflected
51	Propose changing 'A non-cash asset' to 'A non-monetary asset'… We also note that there is no guidance on how to determine fair value included in ED 71. We would have expected to see a discussion on fair value after paragraph 62.	Agreed - wording will be reviewed as part of editorial group for monetary asset - no additional guidance on FV added. This guidance will be incorporated in the Measurement IPSAS
53	We propose that the reference to impairment guidance in this paragraph be deleted as it is not relevant to the revenue principles.	No Action - agreed with the concept present - paragraph clarifies credit losses are excluded from the calculation of revenue and impairment is considered as part of IPSAS 41
57	The first sentence refers to 'price concessions' and 'performance bonuses'. Consider whether there is a better term for 'price	Agreed

Paragraph	Comment	Staff response
	concessions' in the context of taxes, fines etc. and consider whether 'performance bonuses' are relevant to the types of transactions within the scope of this ED.	- terminology updated to "negotiated concession"
58	This paragraph allows for the use of one of two methods to estimate the amount of variable consideration. If the principles on transaction price are applicable to all types of revenue transactions without performance obligations (including taxes), it will change the measurement of taxes. IPSAS 23 required an entity to measure tax revenue using a 'best estimate'. This could have resulted in an entity only developing one possible outcome for tax collection. Applying the principles in paragraph .58(a) and (b) will require entities to develop multiple scenarios for tax revenue which may be extremely onerous. When the IPSASB issued the Consultation Paper, there was a view that the accounting for transactions without performance obligations would remain largely unchanged. We are therefore unsure why the measurement approach has been changed to align with IFRS 15, as the accounting for some of these transactions may now become more complex. We propose that the accounting for tax revenue should be kept closely aligned with the principles established in IPSAS 23. If the requirements from IFRS 15 on transaction price are retained, we suggest that the application guidance for tax revenue should indicate that an entity need not apply paragraphs 58(a) or (b) where there are variable inflows but can develop a single best estimate.	No action - best estimate is the "most likely amount" - paragraph 84 has been updated to indicate it is expected that taxes will be measured at the transaction amount and the end of sentence now indicates "which is consistent with most likely amount with paragraph 58".
Par 61(a)	We question the consideration of "a high risk of obsolescence of the inflow when it non-cash" in this section as the "transaction price" is only applicable to "cash transfers" in accordance with paragraph 50.	Agree - transaction price section has been updated for consistency with ED 70 as it relates to non-cash consideration.

Paragraph	Comment	Staff response
	We are also unsure whether references to "volatility in the market" and "weather conditions" are appropriate for the types of transactions in the scope of ED 71.	- in-period review document indicated cash transactions were measured at transaction price and non-cash transactions were measured at fair value - now all transactions are measured at transaction price. However, transaction price for a non-cash transaction is fair value.
62	The guidance should be expanded to explain how the change should be accounted for, i.e. include a reference to IPSAS 3 (see paragraph 83 as well as ED 70). If the reference is included here, it could potentially be deleted in paragraph 83.	No action - consistent with ED 70
66	We question the need for the reference to "taxable event" as the guidance in this paragraph is meant to deal with all types of revenue without performance obligations and not just taxes.	No action - consistent with IPSAS 23
69 to 71	The comment raised is similar to the comment raised on ED 70. *General – placement of guidance* We do not believe that it is appropriate to discuss the subsequent measurement of receivables in the revenue Standard. *General – use of amortised cost* When the Consultation Paper requesting views on accounting for statutory receivables predates the issuing of IPSAS 41. Many of the principles for amortised cost and impairment have changed significantly. It is therefore unclear whether constituents will have the same views given the complexity in the new approach. It would be useful for the staff to present a paper to the board outlining (a) how the new IPSAS 41 requirements will apply to transactions that are not undertaken in a market, (b) how all the complexities will be dealt with in the new ECL model for transactions that are not contractual, (c) is there sufficient information about credit	No action - SMC added asking "Do you agree with the IPSASB's proposals in paragraphs 73–75 that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, why not?"

Paragraph	Comment	Staff response
	risk + its management to apply the new ECL. Applying the full ECL model may not be appropriate – a simplified version may be appropriate for statutory receivables (e.g. always a lifetime approach, and only estimate cash flows using historical data).	
69 to 71	*Uncertainty over requirements in IPSAS 41 to be applied* Paragraph 70 simply refer to applying amortised cost in paragraph 69 – 70 of IPSAS 41. What does this mean? Only in determining interest, or also impairment losses? It is also unclear whether purchased originated credit impaired requirements will need to be applied to these receivables. How will derecognition be applied? Will any disclosures from IPSAS 30 be applied? There are no consequential amendments proposed in ED 71 to IPSAS 30. What transitional provisions apply for the measurement of non-contractual receivables?	Agreed - the wording in this section was simplified based on amendments made to the AGs of ED70. Wording from ED70 was imported to maintain consistency.
72 to 84	We propose that, as opposed to including a reference to “other compulsory contributions and levies” throughout the text, a single paragraph could be included to explain that similar principles to that on taxes are applied to other compulsory contributions and levies.	Agreed - the term will "Taxes and other compulsory contributions and levies" has been removed. - "Taxes also include other compulsory contributions and levies." will be added as the third sentence to paragraph 28, the first paragraph that explains the definition of taxes.
81 to 84	We have observed that there are inconsistencies between the measurement of cash and non-cash assets proposed in paragraphs 50 and 51 and the measurement paragraphs for taxes. The following are examples: • Paragraph 81 only refers to ‘fair value’. Based on paragraph 51, this would then only apply to non-cash assets. As taxes are	No action - best estimate is the "most likely amount" - paragraph 84 has been updated to indicate it is expected that taxes will be measured at the transaction amount and the end of sentence now indicates "which is consistent with most likely amount with paragraph 58".

Paragraph	Comment	Staff response
	likely to be collected in cash, we believe that reference should be made to both transaction price (cash) and fair value (non-cash). • Paragraph 82 seems inconsistent with the approaches outlined in paragraphs 58(a) and (b) – see comments on that paragraph for taxes. There are similar examples in the application guidance for the other transaction types (e.g. AG37, AG42 and AG53 still refers only to fair value).	
85	We are not sure what this guidance is meant to achieve and propose that it should be reconsidered.	No Action - IPSASB requested guidance on taxes with long collection periods be addressed. Guidance is consistent with the variable constraint requirements of transaction price.
91-96	These paragraphs only deal with recognition of transfers – guidance should also be provided on measurement.	No Action - measurement of capital transfers is covered in measurement of transfers
91	We propose that the paragraph should clarify that that not all transfers are without performance obligations as some may be in ED 70 (also refer to the comment earlier).	No Action - if an arrangement includes a performance obligation it is not a transfer - transfers occur when one party provides an asset to another party with nothing given in return - transactions with performance obligations always include something returned (either to the other party in the arrangement or a 3rd party)
93	The propose that the paragraph should be expanded to explain the point of recognition (as par 92).	Agreed - paragraph 92 was deleted.

Paragraph	Comment	Staff response
		- a capital transfer does not arise from arrangements that are not binding arrangements. Paragraph provided no benefit and was confusing.
95	We propose that some principles in IPSAS 11 be incorporated here (or in the AGs) to guide entities on how they can systematically recognise revenue over the period of the construction of the asset.	Agreed - paragraph 95 was deleted. Capital transfers will at a minimum include one enforceable activity, construct the asset. The paragraph was removed to eliminate the confusion. - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?" - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?"
106, 107	We propose that the section should be expanded to better articulate the link with revenue without performance obligations. For example, where paragraph 107 refers to “specific requirements are imposed on the transferred assets” it could modified to indicate that where there are “specific activities that need to be undertaken or eligible expenditure needs to be incurred”….	Agreed - will be amended to reflect no performance obligation characteristics
Disclosure-general	The disclosure requirements in ED 70.109 to enable users to understand the nature, amount, timing and uncertainty of revenue arising from binding arrangements will be useful as well. We propose that a similar disclosure should be included in ED 71.	See Disclosure Memo. Agenda Item 5.2.4
	As the disclosure requirements in ED 70.127 on determining the transaction price will also be useful, we propose that similar requirements should be included in ED 71.	See Disclosure Memo. Agenda Item 5.2.4

Paragraph	Comment	Staff response
	No specific disclosure requirements are included for capital transfers. We are of the view that users will find disclosure on the nature of these arrangements, progress with construction and/or development, and on the extent to which enforceable activities or eligible expenditure were satisfied. We propose that consideration be given to the inclusion of disclosures on capital transfers.	
116	Not sure what is meant with "where the face value of the revenue without performance obligation transaction may not always be collectible". ED 71 does not refer to face value at all. We recommend that the requirement should be reconsidered.	No Action - disclosure was developed to show the amount that had been billed but not collectible to hold entities accountable for collection - consistent with ED70
121(b)	We question the relevance of this paragraph and propose that it should be deleted.	No Action - 121(b) is consistent with the transition requirements of ED 70. The paragraph is necessary to limit the transition requirements when adopting ED71. If the paragraph is removed, revenue from completed binding arrangements would also have to be restated
AG2	We propose that the guidance in this section should be deleted as it does not add any value.	No Action - added to align sections in AGs with core standard.
AG8	The paragraph indicates that 'the arrangement is accounted for within the scope of this draft Standard when the entity (transfer recipient) is able to determine who will receive the training services'. We are unclear of the meaning of this sentence. How would the identification of recipients of training services determine the scope? Suggest deleting or rewording.	No action - being able to determine who receives the training is an indicator of control. If the transfer recipient maintains control of the good/service, the transaction is in scope of ED 71

Paragraph	Comment	Staff response
AG9(b)	Ordinary transfers could be included in AG9(c) as they are currently omitted, or alternatively paragraph AG9 should refer to (a) taxes and (b) transfers, including capital transfers, debt forgiveness…etc.	Agreed - combined (b) capital transfers with (c) "other transfers"
AG12	We are of the view that this is a management issue and propose that it should be deleted.	Agreed - to be deleted
AG13	We question the conclusion in the last sentence. The reporting of information on completion seems to be an administrative action rather than creating a present obligation. We propose that the explanation should be reconsidered.	No action - guidance is provided to help with determining when to recognize revenue and when the enforceable activity is satisfied.
AG18, AG22, AG23	We have comments on the equivalent paragraph in ED 70. Please see our comments on ED 70.	No action - staff agree the clarification, however, the definition of Binding Arrangement was agreed by the IPSASB in 2018. - the concept of "rights and obligations to both parties" is addressed in AG14
AG34	We question the relevance of the principle on the reduction in the volatility on revenue in this paragraph and propose the deletion of the sentence. It also contradicts paragraph 62 as well as 83/84 on adjustments to revenue estimates in subsequent periods.	Agreed - this concept is more relevant as a BC - the concept is already addressed in BC16/17/18
AG 42	Also include a reference to IPSAS 27 and 31.	No action - consistent with IPSAS 23
Amendments to other IPSAS	*IPSAS 1 – par 88(g)* Amend “recoverable” to “receivables”	Agree - Reference to be updated
	IPSAS 30 At present the amendments only refer to credit risk disclosures. There may however be other disclosures that are relevant to	Agree - Reference to be updated

Paragraph	Comment	Staff response
	assessing the significance of receivables to the statements of financial position and performance (e.g. on the classification of instruments, the use of an allowance account etc.)	
Basis for conclusions	We do not believe that the basis for conclusions adequately explains the rationale for changing the delineation of transactions to those with, or without performance obligations. Simply saying that the Board proposed in the CP and constituents agreed does not explain the conceptual rationale for the change. The basis for conclusions should adequately explain why/how the change in approach better contributes to providing information to hold entities accountable and make decisions	No Action - BC5 outlines the issues constituents had with exchange/ non-exchange differentiations - BC6 outlines how IFRS 15 presented a new model - BC7 outlines constituents agreed with IPSASB view to adopt performance obligation approach
BC23	The explanation in this BC contradicts the principle in the ED and should be reconsidered.	Agreed - the word "recognition" was added between "different" and "requirements" - replaced "financial reporting treatments" with "recognition point".
BC25	We question why this explanation was included in the BC as this ED does not deal with the recognition and measurement of contributions from owners. We propose that it should be deleted. Also, the reference to the paragraph in the BC incorrect.	No action - IPSASB instruction to keep IPSAS 23 BCs relevant to ED71 - Reference updated to paragraph 6
BC27	The paragraph explains that cash should be recognised because of a principle established in the Cash Basis IPSAS. This is inappropriate – the principle for recognition of cash should be based on the principles in accrual-basis IPSAS.	No action - IPSASB instruction to keep IPSAS 23 BCs relevant to ED71
BC31 and 32	We question the need for this explanation and propose that it should be deleted.	No action - IPSASB instruction to keep IPSAS 23 BCs relevant to ED71

Paragraph	Comment	Staff response
General	Overall scoping guidance would be useful. It is unclear which Standard entities should apply first, i.e. IPSAS 42, IPSAS 19 or this Standard. IPSAS 42 contains a table which aims to clarify this. Suggest the same table be included in this Standard. [It is currently not clear what the scope of Collective and Individual Services will be with regards to cash as the amendments to IPSAS 19 will only be issued January 2020.] It would be helpful if the scope explains that transfer expense transactions that do not fall in the scope of other Standards are in the scope of this Standard.	No Action. - Paragraph 3 lists items outside the scope of ED 72, including IPSAS 42, collective and individual services, etc. It is clear any items listed in paragraph 3 are covered by those Standards, not this ED.
General	Recognition of a binding arrangement asset: right to have goods / services provided to third party beneficiaries This is first introduced in the Standard under presentation, but we believe that the requirements should be under recognition (paragraph 120). Also, the circumstances when an entity would recognise such an asset is unclear. BC21 explains that an entity would have an asset where the terms of the binding arrangement is such that an entity is required to transfer resources prior to the transfer recipient having satisfied performance obligations. The conclusion in BC 34 seems to be wider to apply to all binding arrangements, irrespective of whether an entity is required to transfer resources prior to the recipient performing. BC 34 should be aligned to BC 21.	No Action. Core text is aligned with ED 70. BC21 to BC 34 need to be read as a single argument.
General	Capital grants are not dealt with specifically in the Standard. Consider giving guidance on how the Standard should be applied to capital grants, e.g. by adding a note to the transfer expense definition.	Agreed. Reference added to Objective (paragraph 1).
.04	The Standard only needs to address distributions to owners. The text relating to contributions from owners should be removed. This applies throughout the Standard.	No Action.

Paragraph	Comment	Staff response
		- The entity may be a controlling entity or an investor and may make contributions. This issue has been raised more than once at IPSASB meetings, suggesting a potential for confusion that is best addressed by an explicit reference.
.05	There is only one expense Standard (this Standard) requiring parts of a transaction be accounted for separately. As a result it is unclear what type of transactions would be included here. An example would assist. It seems to be a mirror of what is included in ED 70, but without understanding what transactions are envisaged, the paragraph may not be relevant in ED 72.	No Action. - See Example 3 which covers when an transaction may need to be separated into two parts, only one of which is covered by this ED.
.06	Definition of "transfer expense" - Propose that references to "entity" be widened, as it could also be e.g. individuals. It would assist if the term is explained to include individuals. - The BCs include a discussion on using the GFS definition. Because of the use of "any good, service or other asset", guidance would be needed on transactions where a good, service or other asset of an arbitrary or of clearly lower value that what is given to the resource provider. - "Goods, services, or other assets" – it is not used consistently throughout the Standard. Some text just refers to "assets" and not "other assets". Since it has been clarified that "goods and services" incorporates assets, it is not needed.	Action. - Definition amended to clarify that the recipient entity may be an individual. - BCs – any receipt, even if of clearly lower value, is sufficient to take the transaction out of the scope of the ED – discussed by the IPSASB in June 2019. - Consistency could be reviewed by a review group
.08	It may not be clear why transfer expenses with performance obligations are only in instances where the recipient has an obligation to transfer goods or services to third party beneficiaries. A reader should put together the ED 70 definition of a performance obligation, and the definition of a transfer expense in this Standard. This could be clarified in AG 8, and AG 23 could link to AG 8. It could also be explained in BC 37(b).	Agreed. - New paragraph AG25 added

Paragraph	Comment	Staff response
10(d)	Reconsider if this is sensible in the case of a transfer provider. The intention in ED70 is clear (linked to IFRS 15) where there is a risk of overstating revenue. The opposite is not true for expenses. This also applies to related paragraphs (e.g. paragraph 16). It is unclear how a transaction that does not meet the criteria in paragraph 10 will be accounted for (on the cash basis?). It is also unclear if an entity makes an advance payment what it would do if it is not probable that the transfer recipient has the intention and ability to provide goods and services to third party beneficiaries.	Agreed. - Paragraph 10(d) deleted. and text added that where criteria are not met, the accounting is as a transfer expense without performance obligations. Paragraphs 16 and 17 also deleted.
.32	When needing to look at when the third party beneficiary loses control because more reliable information is available, no guidance is provided. The rest of the paragraphs only deal with when a third party beneficiary gains control.	No Action. - Recognition is intended to be based on third-party gaining control. Option to rely on transfer recipient gaining control is intended to be used where this information is easier to determine.
.39	It may be difficult in practice to determine a third party beneficiary's progress.	No Action. - Accept that determining a transfer recipient's progress might be difficult, but if measuring the performance is not possible, it suggests that the binding arrangement is not enforceable, and should be accounted for as a transfer expense without performance obligation
.41	No explanation or guidance is provided in the standard on input methods [also see AG 49]. We suggest reconsidering the appropriateness of the input method and/or reinstating the guidance that was deleted. .	No Action. - The IPSASB agreed at its September meeting to remove this (and other) guidance, but to allow preparers to rely on the guidance in ED 70 where they had sufficient information to apply the guidance. See AG 25 (revised to refer to the input method in response to comment on AG25).
.44 - .45	Reasonable measure of progress It is unclear what an entity should do if they do not expect to be able to measure progress presently or subsequently. Should expenses be	Agreed. Guidance added that if cannot measure over time, treat as at a point in time. Reasonable measure is as per ED 70, no change.

Paragraph	Comment	Staff response
	recognised on the cash basis? Or where cash has been transferred, an asset recognised? It is unclear how entities should determine what is a "reasonable measure".	
.50 - .64	Measurement – variable consideration Refer to comments on ED 70 / ED 71.	No Action. Issue addressed by amendments to ED 71.
.89(a)	This approach should apply to all transactions outside the scope of the PSPOA, not just where a binding arrangement requires enforceable activities and/or eligible expenditure rather than performance obligations. The rest of the "transfer expenses without performance obligations" section would need to be updated to address the other types of transactions that would be in this section.	No Action. Staff consider that (old) 89(a) and 89(b) (now 87(a) and 87(b)) together includes all transfers outside the scope of the PSPOA.
.97	Refer to comment on ED 71. It should not be about the approval, but an obligation to transfer. [Also AG 86 to AG 108]	To Review - Staff received a second comment more recently with specific drafting suggestions to the text on appropriations in both ED 71 and ED 72. Staff propose to work with the respondents at the December meeting to review the appropriate text in both EDs.
.101	Clarify that ED 72 does not apply to income taxes.	Agree. - Additional text added.
.116 - .118	Same comment as with ED 71. It is unclear why subsequent measurement of a liability is dealt with in this Standard when it should be IPSAS 41 or another Standard (e.g. IPSAS 19). Otherwise the scope of IPSAS 41 or IPSAS 19 should be amended to exclude payables from the arrangements in this Standard.	Agreed. Additional paragraph added (new 114) to address financial liabilities (in line with IPSAS 41). Existing paragraphs retained but only apply where not a financial liability (for example, liability to transfer a non-cash asset). IPSAS 19 is not relevant as the liability is not a provision.

Paragraph	Comment	Staff response
.119	Same comment as with ED 70 and ED 71. It is unclear why transactions are in this Standard when they do not meet the definition of a transfer expense. Should an expense Standard deal with the subsequent measurement of a payable?	No Action. IPSASB decision to include in this ED. (Was originally included in Public Sector Specific Financial Instruments, then removed as per IPSASB decision, prior to the decision to include here.)
.132(b) and .133	These disclosure requirements are onerous. Consider instead of paragraph 133 whether the requirements in paragraph 132(b) are sufficient.	No Action. IPSASB decision to include in this ED. (Was originally included in Public Sector Specific Financial Instruments, then removed as per IPSASB decision, prior to the decision to include here.)
AG8	The reason provided for principal-agent arrangements to be outside the definition of “transfer expense” does not seem correct as it is stated as being because the transfer provider gains control of the transfer recipient’s output. However, principal-agent arrangements could be in the scope where an entity uses an agent to make transfer payments to a third party beneficiary. This paragraph is currently drafted as if principal-agent arrangements and arrangements where the transfer provider gains control of the transfer recipient’s output is one idea, while it is separate.	Agreed. Paragraph AG8 amended to provide guidance that the transfer provider is always a principal, and the accounting is the same whether the transfer provider transacts directly with the transfer recipient or via an agent. A cross reference to paragraph AG23 is also added.
AG 10 – AG 15	See comments on Binding arrangements in ED 70 and ED71.	No Action. - Paragraphs are consistent with ED 70, no change proposed to ED 70.
AG52 and AG53	Refer to comment on ED 71. The rebuttable presumption referred to in the paragraphs are unclear. The presumption appears to be that consideration can be allocated to performance obligations without a portion with no performance obligations, unless an arrangement is explicit about consideration	Agreed. - Sentence relocated, and other changes made in line with amendments to ED 70.

Paragraph	Comment	Staff response
	related to no performance obligations. Consider relocating the first sentence of AG 52 to AG 53.	
AG95	The recognition section, specifically paragraph AG95, should also consider a binding arrangement requirement to return unspent funds to the provider. This occurs in practice and guidance would be needed. [Also BC 53]	Agreed. Paragraphs AG95 and BC53 updated to include return of unspent funds.
AG109	Consider rewording the paragraph as it is describing a past event and links it to an expense. Presumably the paragraph explains when an entity has a liability, and the resultant expense.	No Action. - The paragraph is referring to cases where the expense is recognized at the date the resources are transferred, i.e., where there may be no liability (for example, where an entity gives a grant outside of a binding arrangement.
BC 10	Is the paragraph necessary?	No Action. - IPSASB decision to exclude contributions from owners and distributions to owners, current practice is to refer to all decisions in the BCs.

Other minor comment

Paragraph	Comment	Staff response
General	The Standard repeats text between “transfers with performance obligations” and “transfers without performance obligations”, specifically recognition and measurement. Consider removing duplications with cross-references. E.g. paragraph 14 and paragraph 93.	No Action - IPSASB has agreed to include all requirements under each approach.
General	Throughout the Standard, references are made to “an entity (transfer provider)”, although in some instances reference is only made to “transfer provider”.	Agreed.

Paragraph	Comment	Staff response
	Consider, as in IPSAS 32 *Service Concession Arrangements: Grantor*, to clarify upfront that the Standard applies to transactions of the transfer provider. Throughout the Standard reference only needs to be made to “transfer provider”, which is a defined term.	- Editorial Group to consider replacing references to "an entity (the transfer provider)" with "the transfer provider"
General	Consider consistency: Transfers with performance obligations are the transfer of control of goods or services to third party beneficiaries. The Standard sometimes just refers to the transfer of goods and services.	Editorial Group to consider consistency
.19 and .20	The terms “price” and “consideration seem to be used interchangeably. Consideration should be the overall contract consideration, and price the specific goods or services.	No Action. - Text mirrors that in ED 70. In both cases, price and consideration are not defined terms and used in the general sense. Both are needed in these paragraphs to distinguish between the agreed price and the amount paid.
.75	The first sentence repeats the definition; suggest it be removed.	Agreed. - Text deleted.
AG25	The example would be more helpful if it e.g. explains why the information is needed and what financial statement item(s) are affected.	Agreed. - Example changed to input methods, and now refers to measuring progress towards complete satisfaction of a performance obligation.

Respondent 10

Comments on Draft Exposure Drafts 70 – 72 by United Nations System Task Force on Accounting Standards (UNTFAS)

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 70 para 3 to 6 **ED 72 para 2 to 5** **ED 70 Example 38**	- Clarification of the scope of ED 70 / ED 71 (performance obligation / present obligation) - Examples should be added to ED 70 and ED 71 that use consistent case facts to illustrate scoping o Suggest putting core case facts in a paragraph then having Case A / Case B to show the point at which an arrangement switches from the scope of ED 70 to ED 71 o Key example – clarify when activities that benefit a 3rd party are in scope of 70 or 71 (distinction is who determines which 3rd party receives the good/service) o Consider expanding Example 38 in ED 70 on Vaccination to clarify the issue of Performance Obligation vs Present Obligation and 3rd party issue	Agreed - To be addressed in Illustrative Examples

Respondent 10

ED 72 para 2 to 5 Example 31 IE 171-173	- Clarification of the scope of ED72 o should be clarified to follow consistent treatment with ED 70 and specifically that payments out with present obligations are accounted for consistently with inflows with present obligations i.e. outflows are to be expensed when the recipient of the outflow has met their present obligation. Our view is that example 31 IE171 to IE173 in the ED72 does not reflect this principle.	No Action. - Example deals with a transaction with no performance obligations, but with present obligations – mirroring a transaction within the scope of ED 71, not ED 70. The IPSASB agreed at its September 2019 meeting that the transfer provider does not have an asset in these cases, and therefore recognizes an expense when resources are transferred (or it has an obligation to do so), not when the recipient meets their obligations.
ED 70 para 7	- Clarification of enforceability is necessary o Right now it is difficult to distinguish at what point a contract is enforceable or not enforceable	Agreed - To be addressed in Illustrative Examples
ED 70.AG4	- ED 70.AG4 should be replicated to ED 71 as a portfolio of binding arrangements can exist in both standards	Agreed - To be addressed as part of editorial process
	- Agency examples in ED 72 are necessary as these agreements exist in practice **(As agreed at the workshop/meeting on Friday 15 Nov these can be submitted later by the UN TFAS)**	Awaiting examples

Respondent 11

Comment Template

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]
ED 72/ 105	We understand that this applies only to cases where expense is recognised before the transfer provider has transferred the resource. The wording of this paragraph indicates that one should accrue expense e.g. at the signature of the contract, whereas ED 72 AG 91 suggest that that depends on the terms of the binding arrangement. So even if the arrangement foresees that the transfer provider has to transfer the resources at the achievemebt of certain milestones we would only accrue once the milestone has been completed. I thus think that the wording should also reflect this case.	No Action. - The paragraph deals solely with the measurement of variable consideration, not the recognition point. Recognition could be at contract signing, or at the acheivement of a milestone, if the consideration was still variable at that point.
ED 72 / AG91	Third sentence: we suggest to delete "…..or to the entity (the transfer provider)." Reason: we understand that transfers of goods or services back to the transfer provider are out of scope. It could lead to misunderstandings.	Agreed. - Text deleted.

Respondent 12

Comment Template

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	Comment	Staff response
	Objective, Scope and Definitions	
ED 70 and ED 71	Do the EDs address revenue contracts that can potentially become onerous contracts?	See memo. Agenda Item 8.2.7 - No changes required to the EDs, but this issue is discussed in a Board paper)

Consolidated Issues from Comments Templates (For Informational Purposes Only)

Comments were consolidated into a single excel spreadsheet for Staff's analysis purposes. This Consolidated Issues document was used as the basis for amendments to ED 70, 71 and 72 and for issues papers developed by Staff in the individual sessions on each ED.

ED	Paragraph	Theme	Comment	Staff response	Respondent
70	1.00	Editorial	Footnote 1 in paragraph 1 indicates that 'goods and service or goods or services may encompass non-current assets'. There are areas in the text where assets are specifically mentioned alongside goods and services, e.g. the definition of a 3rd party beneficiary. We propose reviewing the references to assets in the text and assess if they should be deleted.	No Action - The anonymous authority wording (use of "may") in the footnote was specifically crafted to not contradict the definition of third-party beneficiary, as the definition needs to fit within all three exposure drafts.	Respondent 09
70	7.00	Enforceability	Clarification of enforceability is necessary - Right now it is difficult to distinguish at what point a contract is enforceable or not enforceable	Agreed - To be addressed in Illustrative Examples	Respondent 10
70	112.00	Editorial	I recommend to move this paragraph to AG section, otherwise to delete. Materiality is common notion through a set of IPSAS, and this paragraph just looks duplicating, and i am concerning that the paragraph results misunderstanding for users that materiality notion is not applied for the other IPSAS without such paragraph in core texts.	No Action - Discussed at the September meeting with the Board.	Respondent 05
70	120.00	Disclosures	(b) refers to paragraph 13 to 15, however, I recommend to refer only par. 8(e). Because, the information disclosed by the requirement of (b) is not different from revenue those recognised at a point of time, and to require this information may result the unintended burden for the reporting eintity.	Agree - Revised 120 to refer to paragraph 8(e).	Respondent 05
70	120	Disclosures	The proposed disclosure only focuses on those transactions that do not meet the recognition criteria. To understand what value is being 'given' away, it may also be helpful to request disclosure on those transactions where price concessions exist for reduced consideration received by the entity. The first sentence should also refer to both the purchaser ability and intention to pay (consistent with paragraph 8(e)). This is a pervasive comment across the text.	Agreed - Revised 120 to refer to paragraph 8(e), so both amounts that are recognized and not recognized will be captured.	Respondent 09
70	26(a)	Editorial	The last sentence of paragraph 26(a) seems to introduce a new threshold, i.e. that the goods or services provided need to contribute to the purchaser's service delivery objectives when assessing whether economic benefits or service potential arise from the good or service. We believe it is sufficient to simply state the following: "A purchaser can generate the economic benefits or service potential from the good or service transferred to a third party beneficiary if they are transferred to a third party beneficiary". There seems to be an overemphasis on the third party beneficiary – as these arrangements exist in IFRS 15, we do not believe that another assessment/threshold is needed.	No Action - The wording clarifies that the economic benefits or services potential can also be generated when dealing with third-party beneficiaries. There is no reference to another threshold or assessment. - The IPSASB also agreed to the text at a prior meeting.	Respondent 09
70	3 to 6, Example 38	Scope	Clarification of the scope of ED 70 / ED 71 (performance obligation / present obligation) Examples should be added to ED 70 and ED 71 that use consistent case facts to illustrate scoping : - Suggest putting core case facts in a paragraph then having Case A / Case B to show the point at which an arrangement switches from the scope of ED 70 to ED 71 - Key example – clarify when activities that benefit a 3rd party are in scope of 70 or 71 (distinction is who determines which 3rd party receives the good/service) - Consider expanding Example 38 in ED 70 on Vaccination to clarify the issue of Performance Obligation vs Present Obligation and 3rd party issue	Agreed - To be addressed in Illustrative Examples	Respondent 10
70	37(b) and (d)	Editorial	We are of the view that a reference to a third party beneficiary should be included in relation to the transfer of legal title of an asset, as well as the transfer of risk and rewards. It is possible that the legal title to the asset transfers to the third party beneficiary rather than the purchaser, as well as the risks and rewards of ownership being transferred to the third party beneficiary.	Agree - Updated	Respondent 09
70	37(e)	Editorial	We are of the view that the reference to a third party beneficiary should be deleted in relation to the acceptance of the asset. As this is a contractual term between the entity and the purchaser, it is unlikely that the third party beneficiary will be able to indicate its acceptance of the good or service in a way that binds the purchaser.	Agree - Updated	Respondent 09
70	5 and 6	Editorial	References are made to a 'binding arrangement with a purchaser'. Should these refer to 'a binding arrangement with performance obligations'? While we accept that the wording in the equivalent paragraphs in IFRS 15 refer to a 'contract with a customer', the wording was changed to a 'contract with performance obligations' elsewhere in ED 70. To have both terms 'binding arrangement with a purchaser' and 'binding arrangement with performance obligations' may be confusing.	Agree - Updated	Respondent 09
70	5	Scope	It is unclear how paragraph 5 interacts with paragraph AG70 and AG71. Paragraph 5 refers to applying the requirements in the other standards first, and then applying ED 70. For transactions with non-exchange components, AG70 and AG71 says ED 70 should be applied and the remainder in ED 71. These two paragraphs seem to outline conflicting requirements These paragraphs also seem to conflict with paragraph 8 of ED 71. Paragraph 8 refers to first applying ED 70 and then ED 71. Either paragraph 5 should be revised to align with the other paragraphs, or it should be made clear that these paragraphs do not deal with hybrid transactions.	No Action needed in ED 70 - ED70 refers to applying "hybrid" transactions using other standards first, and if there is no guidance on how to split the transaction in the other standard, apply ED 70. This is consistent with the revised paragraph 8 of ED 71.	Respondent 09
70	7	Definitions	*Control* It is unclear why a definition of control has been added. There are two issues with including the definition of control: -The current definition/description of control in existing IPSAS is not exactly the same as the definition. -Because this definition is not consistent with existing literature, it is likely to cause confusion with other Standards where control is used for recognition of assets. Paragraph 32 adequately explains the concept – no definition is needed. *Contract* The definition of a contract should include a reference to willing parties to be aligned to IPSAS 41.	No Action needed - Definition is needed as ED 71 and ED 72 refers to "Control" as defined in ED 70. - The wording is unchanged from IFRS 15/ED 70; this is just a movement of text.	Respondent 09
70	7	Definitions	It is unclear why a definition is needed for 'third-party beneficiary'. This idea is sufficiently explained in the application guidance.	No Action needed - Inclusion was based on a specific decision made by the IPSASB.	Respondent 09
70	7	Definitions	It is unclear why a definition of a customer is needed – it is the same description as for a purchaser. Consider deleting.	No Action needed - Inclusion was based on a specific decision made by the IPSASB.	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
70	8e, 14, 46, 51, 55, 120, AG32	Measurement	The general point to make is that on the face of it, the standard appears to allow entities to use the probabiliy threshold combined with implicit price concessions to record either certain revenue or reduced revenue amounts without showing impairments. For example, if a electricity supplier is forced by legislation to supply electricity regardless of the customers ability to pay, then a low probability of receiving payment would render this transaction out of scope (8e). Para 14 then stipulates under what circumstances revenue is recognised should any be subsequently be received. If, for example, the customer pays £40 out of say an invoice of £100, the standard I think would allow you to simply record the £40 as revenue (14) but disclose the £60 (para 120). I think if this were challenged ie why not revenue of £100 and impairment of £60, the entity could use a number of paragraphs to justify their methodology such as paras 46, 50 and 51 – price concession. AG32 is interesting since it says that revenue is adjusted for things like price concessions but not bad debts. I think example 7 highlights my point, the normal rate is CU10,000 but you are willing to accept CU1,000 so that is ok. The initial assessment of what amount will be received seems to drive the revenue recognition which could in turn hide poor revenue collection by the entity?	No action needed - Impairment relates to losses arising from deterioration after initial recognition. This is consistent with IFRS 9/IPSAS 41 where impairment losses are recognized if there are significant increases in credit risk. Using the example, if it is known upon entering the transaction that only CU1,000 is expected to be collected, the recognition of the additional CU9,000 offset by impairment loss of CU9,000 would not be appropriate, as the CU9,000 never met the recognition criteria to be an asset.	Respondent 02
70	AG10	Editorial	Part (a) refers to 'sufficiently specific rights and obligations' – this is not discussed in any detail in the paragraphs that follow. What would constitute 'sufficiently specific'.	Agreed -Should be "distinct"	Respondent 09
70	AG115	Editorial	The guidance in this paragraph simply says to apply the requirements of the Standard. This is not helpful and underestimates the complexity of these transactions. There is a high degree of judgement needed to apply the principles, e.g. if a licence is needed to undertake a certain profession, arguably some of the fee could relate to professional services received, while some is for funding the regulation of the profession. How should entities deal with these situations.	No action needed - The Task Force agreed that no new principles were introduced and how to apply the principles to non-IP licenses would be the same as other types of binding arrangements. As a result, the Task Force decided to only include an illustrative example.	Respondent 09
70	AG13	Binding arrangement	The paragraph indicates that if there is no binding arrangement, ED 71 is applied. It is unclear how the requirements of ED 71 can be applied if there are no enforceable rights and obligations in the arrangement. ED 71 requires that an entity demonstrate control of resources for recognition. An entity would find it difficult to demonstrate control in the absence of enforceable rights and obligations and/or no binding arrangement at all.	No action needed - ED 71 would require day-1 recognition if there is no binding arrangement. (e.g. for donations, the entity would recognize revenue in its entirety once it has obtained control of the assets.)	Respondent 09
70	AG142 and AG143	Measurement	*General – placement of guidance* We do not believe that it is appropriate to discuss the subsequent measurement of receivables in the revenue Standard. *General – use of amortised cost* When the Consultation Paper requesting views on accounting for statutory receivables predates the issuing of IPSAS 41. Many of the principles for amortised cost and impairment have changed significantly. It is therefore unclear whether constituents will have the same views given the complexity in the new approach. It would be useful for the staff to present a paper to the board outlining (a) how the new IPSAS 41 requirements will apply to transactions that are not undertaken in a market, (b) how all the complexities will be dealt with in the new ECL model for transactions that are not contractual, (c) is there sufficient information about credit risk + its management to apply the new ECL. Applying the full ECL model may not be appropriate – a simplified version may be appropriate for statutory receivables (e.g. always a lifetime approach, and only estimate cash flows using historical data). *Uncertainty over requirements in IPSAS 40 to be applied* AG142/AG143 simply refer to applying amortised cost in paragraph 69 – 70 of IPSAS 40. What does this mean? Only in determining interest, or also impairment losses? It is also unclear whether purchased originated credit impaired requirements will need to be applied to these receivables. How will derecognition be applied? Will any disclosures from IPSAS 30 be applied? There are no consequential amendments proposed in ED 70 to IPSAS 30. What transitional provisions apply for the measurement of non-contractual receivables?	No action -Developed an SMC as part of ED 71, "Do you agree with the IPSASBs that receivables within the scope of the standard should be subsequently measured in accordance with IPSAS 41" - wording on receivables balances have been amended to be more simplified in explaining the principle	Respondent 09
70	AG142, AG143	Measurement	The reason is explained in BC59, but I wonder non-contractual receivables will occur from the transactions other than revenue without PO. Such as the gain from the selling of PPE. Therefore, my recommendation is to move these paragraphs to IPSAS 1 or to set similar requirements to othe relevant IPSAS.	Agreed -Resolved by simplifying the woridng to more clearly reflect the principle	Respondent 05
70	AG19	Editorial	The paragraph indicates that "On its own, this authority does not establish enforceable rights and obligations…" This seems very specific and may vary from jurisdiction to jurisdiction. Paragraph AG 11 also indicates that enforceable rights and obligations could arise from a contract as well as other means. There seems to a conflict in the wording of AG11 and AG19 as AG19 indicates that on their own they do not establish enforceable rights and obligations.	No action needed - The paragraph is stating that a government cannot use their legislative authority as an enforceablity mechanism unless it is already stated in the agreement that they may use it.	Respondent 09
70	AG21 and AG22	Enforceability	These paragraphs indicate that the potential reduction of funding can be considered if they exist in other agreements. It is inappropriate combine or read together the terms and conditions of separate agreements. We also generally do not believe that the types of arrangements that have 'future funding' will necessarily be in the scope of ED 70 as there is a clear purchase of goods and services in exchange for consideration in the arrangement. The reference to future funding may be confusing of purposes of understanding the scope.	Amended wording - We were informed by constituents that their agreements specifically refer to other agreements. Will clarify in wording	Respondent 09
70	AG24	Editorial	The paragraph explains the accounting for a constructive obligation. It is unclear why it is needed.	No action required - This was a specific item discussed at the March 2019 IPSASB meeting and the addition was in response to the resulting board decision.	Respondent 09
70	AG25	Editorial	We do not believe that an entity should consider past practice in deciding what rights/obligations are enforceable. This is inconsistent with the principles in other standards. E.g. IPSAS 35 on rights demonstrating control – it does not matter if an entity does not exercise certain rights, what matters is that they exist.	No action required - Consideration of past practice in the determination of enforceability is directly from IFRS 15.10. - The same concept also exists in IPSAS 23. - Furthermore, consideration of past history, such as voting patterns at previous meetings, are considered in IFRS 10/IPSAS 35.	Respondent 09
70	AG32	Measurement	We have the following comments on this paragraph: - The 2nd sentence refers to: "..but it is generally not reduced for the expectation of bad debts…". The term 'generally' should be deleted. Bad debts are not included in the initial measurement of receivables in IPSAS 41. 'Bad debts' should also be changed to 'credit losses' or 'impairment losses'. - The 3rd sentence refers to '…an entity expects to accept a lower amount…' This should be modified to say – the reference to 'expects' should be deleted. - In reading paragraph 11-15 and AG 32, it is unclear when an entity accepts a price concession, and when the recognition criteria are not met and the transaction is subject to re-testing. This should be explained in the application guidance and basis for conclusions. - This paragraph also only refers to an entity's 'ability' to pay for the goods and services rather than both the intention and the ability.	Staff response for each item: - Agree to change wording - Agree to change wording - If there is enough information to conclude that a price concession exists, the 5-step model is applied and there would be no need to "re-test" - Agree to change wording	Respondent 09
70	AG32, BC37, BC38	Scope	I recommend to delete this paragraph, otherwise to move to ED71. In the case the consideration will not be collected enough, the transaction will not be treated under ED70 but treated under ED 71. (see the flowchart of ED71) However, AG 32 of ED70 looks to treat such transaction as within ED70 even after it moved to ED71.	No action needed - At the March and June 2019 meetings, the members who brought up the 8(e) issue noted that the entity providing the good/service is not providing it for free, and that some amount is expected to be collected. This would scope the issue out of ED 71.	Respondent 05
71	AG4	Scope	ED 70.AG4 should be replicated to ED 71 as a portfolio of binding arrangements can exist in both standards	Agreed - To be addressed as part of editorial process	Respondent 10

ED	Paragraph	Theme	Comment	Staff response	Respondent
70	AG70	Scope	When reading paragraph AG70, it was difficult to understand what the rebuttable presumption is. The way that we understand these two paragraphs, is that the transaction price should be allocated to goods and services, unless there is a public sector transaction where the funding has a dual purpose. As a result, we suggest moving the first sentence to the start of AG 71 and explaining that this is when the presumption may be rebutted.	Agreed - Moving the first sentence of AG70 to AG71.	Respondent 09
70	AG71	Scope	It is unclear what principle this paragraph is articulating. The idea of a 'return of a portion of transaction price' is difficult to understand. The reference to a 'return' implies an advance receipt of consideration, which may not always be the case. Based on the existing steps, it is likely that the non-exchange component would be identified when allocating the transaction price to the performance obligations. What is required is to indicate that if there is a significant 'residual' after the allocation of the transaction price, that the residual is accounted for in ED 71. We would also indicate that where there are components to be identified, applying the residual method may not be appropriate.	No action required - If the consideration is not paid upfront, it is highly unlikely that any entity would pay for an event that has been cancelled - The Task Force noted that the use of any measurement-based separation criteria (e.g. use of fair values and residual amounts) would be difficult to apply due to the subjective and entity-specific nature of the amounts. The use of a black and white separation criterion, such as whether the binding arrangement explicitly allows a return of funds, would avoid this issue.	Respondent 09
70	AG78	Editorial	We suggest adding in a reference to the binding arrangement in the 5th line: …promised in the binding arrangement to the purchaser".	No action required - Wording was previously approved by the Board and was from IFRS 15.	Respondent 09
70	AG92	Editorial	This sentence refers "replacement cost", however, I believe it is better to use the term "Expected cost approach" in par.78(b).	Agreed - Reference made to expected cost approach	Respondent 05
70	AG92	Measurement	It is unclear why it would be difficult to determine the stand-alone prices of a performance obligation simply because there are third party beneficiaries. As a result, we are uncertain why this guidance is needed. We suggest deleting the paragraph. If the paragraph is retained, we have the following comments: - It is unclear who the resource provider is in the arrangement. - The last sentence indicates that the where the prices of the goods and services cannot be estimated from market information, then replacement cost is used. When allowing alternative measurement bases, there is usually a threshold, e.g. if it is impracticable to do X, then an entity can do Y or if a reliable estimate cannot be made using X then an entity can do Y. The last sentence simply says if an entity 'cannot' – this is an inadequate threshold. We suggest including an appropriate threshold indicating when an entity is not required to use market information.	Agreed - This issue was raised specifically in the June 2019 meeting. The concern was that one could set stand-alone price at zero if only the consideration received directly from the third-party beneficiary (i.e., nothing) is considered in the determination of stand-alone price. This has been flushed out in the BCs. - Reference to resource provider has been changed in response to another constituent's comments. - Reference to replacement cost already changed to expected cost approach based on another constituent's comments. This is a measurement basis that is already in ED 70, so it does not need creation of a "threshold".	Respondent 09
70	BC (general)	BC	As a general observation, much of the basis for conclusions refers to administrative changes that are generally processed as part of the 'rules of the road'. In the past, a comparison has been included at the end of an IPSAS indicating high level terminology and other differences. It is not necessary to explain differences in examples or simple wording changes in the basis for conclusions. Examples include BC12(c), BC14, BC19, BC20. We do not believe that the basis for conclusions adequately explains the rationale for changing the delineation of transactions to those with, or without performance obligations. Simply saying that the Board proposed in the CP and constituents agreed does not explain the conceptual rationale for the change. The basis for conclusions should adequately explain why/how the change in approach better contributes to providing information to hold entities accountable and make decisions.	Agreed to add rationale on changing to performance obligation-approach. However, the remaining BCs, including the "administrative changes" were specific Board decisions and Staff was instructed to draft BCs for each point.	Respondent 09
70	BC12	BC	The paragraph should be amended to refer to consistency changes because of existing definitions and terminology in the existing IPSASs.	Agreed -Wording added	Respondent 09
70	BC16 and BC 17	BC	We do not believe that the text explaining the reason for the change to binding arrangements is consistent between the text and application guidance. The BC focuses on the fact that entities may not be able to contract in their own names. The text focuses on both how the transaction arises and that this may not be a contract, as well as how the rights and obligations are enforced. We believe that the BC should be updated to discuss both how the transaction arises as well as how the rights and obligations are enforced.	Agreed -Wording added	Respondent 09
70	BC18	BC	IFRS 15 includes third party arrangements. It should be clear that this is not a departure from IFRS 15, but that these transactions are more prevalent – and the desire to include certain 'non-exchange' transactions in ED 70. It should also be explained what the third party's role is in the transaction, i.e. that it is not a party to the binding arrangement, but merely a beneficiary. BC 18 should also be modified to indicate that a third party beneficiary could be an entity, rather than just an individual or a household.	Agreed - However, IFRS 15 does not explicitly discuss a third-party beneficiary, as this concept was only referred to in the IASB's educational materials. The BCs will be amended to say that ED 70 highlights the concept more explicitly as it is much more prevalent in the public sector.	Respondent 09
70	BC26	BC	The definition of revenue does not contain "activities".	Agreed - Paragraph was missing sentence indicating that the IPSASB did not adopt the IASB's definition of revenues, which refers to "ordinary activities". Amended.	Respondent 05
70	BC32-BC40	BC	The BC should explain when an entity keeps retesting transactions and when a price concession exists.	Agreed - See explanation noted in response to constituent's questions on AG32.	Respondent 09
70	BC53	BC	Is the term "promisor" appropriate in the IPSAS litelature?	Agreed - Replaced with "… binding only for the party to whom the obligation exists.	Respondent 05
70	BC57	BC	See comments above on AG 92 – the same comments apply to the BC.	Agreed - amended to refer to the expected cost approach	Respondent 09
70	BC58	BC	The paragraph does not say anything more than the text in the application guidance. The BC paragraph should explain the issue and why the Board came to a particular conclusion.	Agreed- reworded to say that no need principles or application guidance would be needed to be developed	Respondent 09
70	IE	Scope	The figure and/or table that presents the relashionsip and difference between ED70 (performance obligation) and ED71 (present obligation) must be needed. I had difficulty to explain the complicated relashionship without any figures.	No action required - ED 70 scoping criterion is based on one question. Not necessary	Respondent 05
71	8.00	Scope	While ED 71.08 indicates that the separation into components is required, it indicates that when it is not possible to distinguish between the components with performance obligations, and without performance obligations, the transaction is accounted for in accordance with ED 70. We have two comments: - ED 70.AG70 and AG71 do not acknowledge that there is a default accounting position as described in ED 71. - It is unclear why the default accounting for a transaction with components is ED 70 and not ED 71. It is likely that the accounting in ED 71 is more appropriate to these scenarios. Apart from the inconsistencies between ED 70 and ED 71 on this matter, the 'default' accounting should be reconsidered.	No Action - ED 71.8 indicates to apply ED 70 is bifurcation is not possible. ED 70 requires the application of ED 70 if separation is not possible. No inconsistency.	Respondent 09
71	8.00	Scope	ED 71 currently does not include any separation principles that could be applied to hybrid transactions and does not provide guidance on how any residual should be accounted. We propose that the guidance on hybrid transactions should be aligned with the guidance (and our proposed comments) on paragraphs AG70 and AG71 in ED 70.	No action - paragraph 8 references AG 70/71 in ED70	Respondent 09
71	8.00	Scope	Where a distinguish between compentents with and without performance obligation is not possible, a reference to ED 70.AG70-71 is not suitable. ED 70.AG70-71 is only suitable if there is a transaction with distinguishable transactions. Instead the sentence in BC24 ("however, if the components cannot be separated the whole transactions should be accounted for unter ED 70.") should be included in ED 71.8. Furthermore, I suggest another solution which is in line with the solution in IPSAS 23. The transaction should be accounted under ED 71. The mayority of the transaction in the public sector are without performance obligations therefore its more suitable to refer to ED 71. At least an explicit PV should be included in the ED.	Agreed - AG70 and 71 of ED 70 apply when a transaction can be separated into its components. ED 71.8 should not reference these paragraphs. - the last sentence of paragraph 8 was removed.	Respondent 07
71	19.00	Examples	I recommend to move following sentence to AG section, otherwise to move to IE/IG section. This example is rather specific and should not be included in this standard section. "For example, a transfer recipient may receive funding to conduct a research project whereby any intellectual property obtained from that research will remain under the control of the transfer recipient."	No Action - example provided to clarify the text in paragraph 19	Respondent 05
71	57.00	Measurement	We discussed to what extent price concessions impacted tax revenues. We concluded that there are sufficient examples of HMRC (government tax collector) having struck deals with companies and indeed individuals (famously with the owner of Harrods, Mohame al Fayed). These deals could end up having the same impact as per the above where the boundaries are blurred between face value and transaction price. Again, a poor tax collector may estimate the transaction price differently to one that is more effective based on the same underlying transactions. We feel that price concessions needs to play a bigger part in ED71 than it currently does.	No Action - non substantive comment. Jurisdiction agrees with the principle. Propose including an example to illustrate the principle in more depth.	Respondent 02

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	72.00	Editorial	The Board decided some time back that the use of term 'taxes and other compulsory contributions and levies' was both clumsy and repetitive, and that it should be addressed by a single reference that the term 'taxes' encompassed other compulsory contributions and levies. Therefore all the additional insets made should be removed.	Agreed - the term will "Taxes and other compulsory contributions and levies" has been removed. - "Taxes also include other compulsory contributions and levies." will be added as the third sentence to paragraph 28, the first paragraph that explains the defintion of taxes.	Respondent 03
71	92.00	Editorial	This paragraph says 'capital transfers that do not arise from a binding arrangement'. This contradcits the definition of capital transferse in paragraph 9 which says that a capital transfer is an inflow that arises from binding arrangements.	Agreed - pargarph 92 was deleted. A Captial Transfer does not arise from arrangmetns that are not binding arrangements. Paragraph provided no benefit.	Respondent 02
71	95.00	Editorial	This paragraph states that some capital grants may not specifically identify any enforceable activities or requirement to incur eligibile expenditure. The definition of capital grant states that cash or another asset will be provided with a specification that the transfer recipient acquires or constructs a non-current asset. It would be difficult to envisage that the specification would not include an enforceable activity or requirement to incur eligbile expenditure. The sheer act of buying or constructing an asset would probably satisfy enforceable activity and eligbile expenditure.	Agreed - pargarph 95 was deleted. Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion.	Respondent 02
71	96.00	Capital transfers	Capital transfer transactions are only linked to the obligation of construction or purchase of the non-financial asset and not for any additional obligations.	Agreed - captial tranfers are linked with the procurement or construction of the asset	Respondent 07
71	1	Editorial	Both the objective and scope (paragraph .02(a)) explains that public sector combinations are not dealt with by this Standard. A further explanation is then provided in paragraph .05. We propose that the reference in the objective paragraph should be deleted.	Agreed - reference combintaion has been removed - addressed in conjunction with other objecitve paragraph comments	Respondent 09
71	106, 107	Editorial	We propose that the section should be expanded to better articulate the link with revenue without performance obligations. For example, where paragraph 107 refers to "specific requirements are imposed on the transferred assets" it could modified to indicate that where there are "specific activities that need to be undertaken or eligible expenditure needs to be incurred"….	Agreed - will be amended to reflect no performance obligation characteristics	Respondent 09
71	116	Disclosures	Not sure what is meant with "where the face value of the revenue without performance obligation transaction may not always be collectible". ED 71 does not refer to face value at all. We recommend that the requirement should be reconsidered.	No Action - disclosure was developed to show the amount that had been billed but not collectible to hold entities accountable for collection - consistent with ED70	Respondent 09
71	12	Editorial	We propose that, in the example, "plant" should be amended to "asset" and that the reference to other asset-related IPSAS be included in addition to IPSAS 17, i.e. IPSAS 12, 16, 27 and 31.	Agreed - Changed to "asset"	Respondent 09
71	121(b)	Editorial	We question the relevance of this paragraph and propose that it should be deleted.	No Action - 121(b) is consistent with the transition requirements of ED 70. The paragraph is necessary to limit the transition requirements when adopting ED71. If the paragraph is removed, revenue from completed binding arrangements would also have to be restated	Respondent 09
71	13 and 14	Present Obligation	We question the difference between enforceable activities and eligible expenditure. Both concepts result in an outflow of economic benefits and service potential and we propose that the concepts should be combined as they have similar outcomes. If both activities and expenditure are retained, we believe that the examples provided of eligible activities and eligible expenditure should be modified as they do not clearly illustrate the distinction. For example, in paragraph 17 "constructing a hospital" and "undertaking research" are given as examples of activities but they also both require incurring specific expenditure. Equally in AG11 the reference to 'marketing' in the context of eligible expenditure could be seen as an activity.	No Action - staff agree this is a valid point - an SMC was developed asking "Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?"	Respondent 09
71	13-14 (AG20-27)	Enforceability	Enforeability: General comment – Applying the concept of enforceability to public sector transactions without performance obligations raises different challenges that may not typically arise in transactions with performance obligations. I believe the concept of enforceability is an instrumental part of the standard and it could benefit from being further articulated.	No Action - agree applying the concept of enforcability may be different for revenue without performance obligations, however the concepts are consistent whether applied to revenue with or without performance obligations.	Respondent 08
71	13-14 (AG20-27)	Enforceability	First, the Staff scoping memo states that the concept of enforceability in ED 71 is the same as in ED70. However, ED 70 (paragraph 9) acknowledges that a binding agreement can be implied by an entity's customary practices. This specific element has not been retained in ED 71 (para 13-14 or AG20-27). Furthermore, para 14 of Draft ED 71 brings forward from the old IPSAS 23 (para 16) the fact that constructive obligations do not arise from enforceable activities. There may be a tension here between ED 70 and ED 71, if one believes that an obligation arising from implied customary practices could be a form of constructive obligation. I could not find a Board decision on this specific aspect, was this done on purpose? Have we properly reconciled the principles in ED 70 and ED 71 as it relates to "implied practices" vs "constructive obligations"? If we are not retaining this aspect of ED 70, then does this mean we are defining a binding agreement differently in ED 71 versus ED 70? And if so, should this be further clarified in ED 71?	Agree - the concept of enforcability is consitent between ED 70 and ED 71 - Text from paragraph 9 of ED 70 has been inserted into ED 71 paragraph 14 to enhance this consistency.	Respondent 08
71	13-14 (AG20-27)	Editorial	The 2nd sentence reads oddly. Its essentially says that if a term is uninforceable, it is not enforceable (i.e., an enforceable activity or eligible expeniture). Sentence does not had value, appears circular. Consider re-wording to clarify the point, or removing.	Agree - the paragrph will be updated to indicate "does not give rise to a present obligation (enforceable activity or eligible expenditure)…" - change was required because adding the term enforceable activity appeared circular given the use of "unenforceable" immediately before	Respondent 08
71	14	Present Obligation	As the last and second last sentences deal with liabilities rather than revenue, we propose that it should be deleted.	No Action - enforceable activities and eligible expenditures are present obligations, therefore liabilities. As such a cross reference to IPSAS 19 is necessary for constructive obligations.	Respondent 09
71	15	Present Obligation	The principle explained in this paragraph should be expanded with the explanation included in BC12. The paragraph currently does not explain how the arrangement may result in an outflow of resources where the transfer recipient cannot avoid using the resources to fulfil the binding arrangement requirements, or in the event of a breach.	Agreed - text from the last two sentences from BC12 has been added to the end of paragraph 15 to enhance the discussion of the principle	Respondent 09
71	19 & 21	Editorial	These two paragraphs address the same matter, i.e. enforceable activity and eligible expenditures result in present obligation but not performance obligation. The two paragraphs are written differently, but trying to make the same point. They are also redundant. When we read para 19, we are left wondering "so what"? the "so what" is stated in para 15-16 where we say that a present obligation is created despite the requirements of a performance obligaiton not being met. So to clarify and streamline the text, I suggest you combine 19-21 into one idea and move this idea up with para 15-16, under the heading "present obligation" to make the point that while enforceable activity and eligible expenditures are not performance obligations as defined in ED70, they are present obligation for the purpose of ED71.	No Action - staff agree with the point, however at this juncture are hesitent to make structural changes that do not ehance the clarity of the ED.	Respondent 08
71	2(a)	Editorial	Rewording: A public sector combination that is a non-exchange transaction are accounted for in accordance with IPSAS 40 => a reference to non-exchange transaction seems to be contraproductiv to the aim of the IPSASB to substitute the distinction exchange/ non-exchange by arrangements with/ without performance obligations	Agree - the following will be removed from the end of paragraph 2(a) "that is a non-exchange transaction"	Respondent 07
71	20	Present Obligation	I find this paragraph confusing. I am struggling to understand how the requirement to incur an eligible expenditure is not by definition (or in substance) a form of enforceable activity. Isn't the act of incurring an eligible expenditure an activity enforceable by the transfer, and therefore a form of enforceable activity? In other words, wouldn't any enforceable activity eventually lead to an eligible expenditure? These two concepts are first introduced in para 13. But the relationship (or the distinction) between the two may require to be clarified and further articulated. For instance, we many want to consider whether it would be more logic to consider that the requirement to incur eligible expenditures is part of (or similar to) an enforceable activity.	No Action - staff agree this is a valid point - an SMC was developed asking "Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?"	Respondent 08
71	21	Editorial	We propose that "or incur another form of penalty" in the last sentence should be deleted as it is a subsequent event rather than explaining a present obligation.	No Action - IPSASB decision the outflow of resources could either be fulfilling the requirements of the binding arrangment or reimbursement or other penalty in the event of a breach	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	IE23	Present Obligation	For this example to work properly, a suggestion is to remove the part (b) to keep it specific to the need to build 1,000 new housing units.	No action - example is trying to illustrate if the entity has discretion in how to allocate the funds, deferal is still appropriate. As such, 2 options are necessary	Respondent 08
71	23	Present Obligation	If we are retaining the concepts outlined in old para 20 and 22 of IPSAS 23, I suggest that we add a new illustrative example showing a scenario where the transfer terms would not be considered to have substance.	No action - see example 23	Respondent 08
71	23	Editorial	Enforeability of binding arrangements – substance over form: First, as currently written, draft paragraph 23 mainly repeats content of paragraph 18 and does not add new useful guidance.	No Action - staff agree with the point, however at this juncture are hesitent to make structural changes that do not ehance the clarity of the ED.	Respondent 08
71	23	Present Obligation	General comment – There may be a need to further flush out the substance of a transfer term versus its form. While a transfer term may technically be enforceable, if it merely repeats an existing obligation of a recipient as stated in its mandate/objective, then it should not be considered to have substance, as explained in para 20 and 22 of old IPSAS 23. There is relevant guidance explaining this important nuance in old paragraphs 20 and 22 of IPSAS 23 that has not been retained.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. As such, whenever a present obligiation is created, a liability exists.	Respondent 08
71	23	Present Obligation	Old para 20 is useful to clarify that it is necessary to consider the substance of the term of a transfer agreement and not merely its form. It provides a useful example that the mere specification that a transferred asset is required to be consumed to provides goods and services is in itself not sufficien to give rise to a liablity. I suggest that we retain old para 20.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. When the concept of stipulations and conditions were removed, and a liability was tied directly to a present obligation, no futher guidance was considered necessary. As such, whenever a present oblgiation is created, a liability exists.	Respondent 08
71	23	Present Obligation	Old para 22 relates to the fact that for the term of an arrangement to have substance, it must result in a present obligation that is required as a consequence of the term itself, which cannot merely exist in form. In other words, a term in an agreement that requires an entity to perform an action that it already has no alternative but to perform (without the transfer agreement) may lead the entity to conclude that the term of the agreement does not in substance impose on the recipient entity a present obligation. Put another way, if a term is merely repeating a recipient's existing obligation, it should not be considered to be enforceable in substance.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. When the concept of stipulations and conditions were removed, and a liability was tied directly to a present obligation, no futher guidance was considered necessary. As such, whenever a present oblgiation is created, a liability exists.	Respondent 08
71	23	Present Obligation	Illustrative Example 10 – this scenario imposes the social housing entity to use the cash transfer to increase its housing stock by 1,000 units or support its social housing objectives. This term is very broad and in the end is asking the entity to perform an action that it already has no alternative but to perform accounting to its mandate/objective. If we agree with the guidance in old para 22 stated above, this example is not helful in illustrating the substance of an enforceable transfer requirement.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. When the concept of stipulations and conditions were removed, and a liability was tied directly to a present obligation, no futher guidance was considered necessary. As such, whenever a present oblgiation is created, a liability exists.	Respondent 08
71	23	Present Obligation	EI.21 – While expenditures incurred to support its housing objective may be considered "eligible expenditure" per the term of the transfer agreement, such term should not be considered to have substance as it only repeats an existing obligation of the recipient according to its stated objective.	No action - Paragraph 20-22 were not retained in ED 71 because the concept of a binding arrangement was incorporated from ED 70. This clarified a liability only exists when a present obligation is created. When the concept of stipulations and conditions were removed, and a liability was tied directly to a present obligation, no futher guidance was considered necessary. As such, whenever a present oblgiation is created, a liability exists.	Respondent 08
71	25	Structure	This paragraph deals with a presentational issue and should rather be included in the section dealing with disclosures.	No Action - staff agree with the point, however, ED71 currently does not have a presentation section. Paragraph remains as is for now	Respondent 09
71	26	Present Obligation	The paragraph refers to a present obligation arising only when a future event occurs, e.g. when a matching contribution is found in an arrangement. The paragraph explains that a present obligation only arises once this event occurs. We note that this contradicts the current wording in paragraph 21 (and elsewhere) that refers to a penalty giving rise to a return obligation. If the reference to a 'penalty' is retained (see comments on paragraph 21), then the wording of this paragraph may need to be reconsidered to assess if it is consistent.	Agreed - paragraph removed to avoid inconsistency with 21 because it recognizes a contingent asset which goes against the principles of revenue recognition	Respondent 09
71	3 to 5	Structure	The chronical order of 3-5 should be the same as in the scope section of ED 71.2 a-c. First – public sector combination (5), Second – Revenue from transaction with performance obl (3-4) , Third – contribution to owners (6-7)	Agree - the ordering of paragaph 2 has been updated to reflect the ording of the paragraphs 3-7	Respondent 07
71	3(b)	Scope	This paragraph explains that transfers are an example of a transaction without a performance obligation. However, many transfers (such as donations) may have performance obligations, and therefore not all transfers will be accounted for in terms of ED 71. ED 71 should be clarified to explain that when transfers have performance obligations, the principles in ED 70, rather than ED 71, should be applied to account for the transfer. We also propose that a similar explanation be included in ED 70.	No action - by definition transfers do not have performance obligation as they are one way transactions (no requirement to provide anything in return)	Respondent 09
71	36 (AG32 and BC15)	Appropriation	The paragraph explains that the limitation has substance if the transfer provider is prohibited from transferring the resource until the appropriation is approved. There could also be a limitation if the resource can only be used from a point in time. The point of approval and point at which the entity is entitled to the resource may differ. We propose that the difference between appropriations approved and appropriations to which the entity is entitled to, should be clarified in this paragraph.	No Action - the requirments of the paragraph require you to consider the jurisdictional specifics, limitations based on timing may be considered part of the approval process	Respondent 09
71	37	Editorial	We propose that this paragraph should be expanded to explain that the entity has a right to enforce the receipt of the transfer, otherwise the principle could be misunderstood to indicate that the past event for transfers is the actual transfer of cash.	No Action - paragraph 37 indicates the past event may be a purchase, taxable event or a transfer. This is not designed to be a comprehensive list, nor do any of examples imply waiting until cash is received	Respondent 09
71	38	Measurement	We question the requirement in this paragraph that requires the transfer recipient to assess probability of past experience with similar transactions. ED 70 requires entities to not recognise revenue until it is probable that the entity will collect the consideration it is entitled to in exchange for goods or services through retesting. ED 70 also allows for price concessions when, based on published policies or specific statements that it will accept an amount that is less than the price stated in the binding arrangement. It is unclear how an entity should apply the probability criterion in ED 71. Would no revenue be recognised, or would the amount that is probable be recognised (and/or when a price concession is offered)? We propose that either the guidance should be explained or an approach similar to that in ED 70 (i.e. that in paragraph .08 of ED 70).	Agree - brought across paragraphs 8(e), 13, 14 and 15 from ED 70 detailing when to recognize revenue when the probability criterion is not satified - these paragraphs have been inserted in the asset recognition section (paragraph 38-41)	Respondent 09
71	4	Scope	Propose deleting "where control of the resources is maintained by the entity" as the distinction between transactions in the scope of ED 70 and ED 71 is about the transfer of goods or services to a purchaser. We also do not believe that the reference to 'control' is appropriate, as an entity could maintain control over resources in performance obligations for a period of time before being used to deliver goods or services. We suggest amending the paragraph as follows: "Revenue transactions without performance obligations are transactions where there is no requirement to transfer any goods or services to a transfer provider or third party-beneficiary. ….. " Similar amendments should be made to paragraph AG7.	Agree - proposed wording has been incorporated in to paragraph 4	Respondent 09
71	4	Scope	The explanation in the second sentence "whether they will remain within the entity" could be clarified to focus the explanation on the fact that revenue received can be used at the entity's discretion.	Agree - added "at their discretion" after "how the resources will be used"	Respondent 09
71	41	Editorial	Propose that reference should be made to "…in laws and regulations and other binding arrangements" (as in par 42) – binding arrangements already includes laws and regulations. We have noted several similar inconsistencies and suggest that the wording be reviewed.	Agree - wording will be updated	Respondent 09
71	44	Editorial	The paragraph should be modified to explain that an advance receipt can also arise if the entity is not yet entitled to the resources.	No action - wording is from IPSAS 23. Limited scope to change unless there is a fatal flaw	Respondent 09
71	50 (Heading)	Editorial	Propose amending the reference to 'cash transfer' to 'Acquisition of monetary assets'.	Agreed - change will be reflected	Respondent 09
71	50	Editorial	Propose changing 'A cash asset' to a 'A monetary asset'.	Agreed - change will be reflected	Respondent 09
71	51 (Heading)	Editorial	Proposed changing the heading to "Non-monetary assets"	Agreed - change will be reflected	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	51	Measurement	Propose changing 'A non-cash asset' to 'A non-monetary asset'... We also note that there is no guidance on how to determine fair value included in ED 71. We would have expected to see a discussion on fair value after paragraph 62.	Agreed - wording will be reviewed as part of editorial group for monetary asset - no additional guidance on FV added. This guidance will be incorporated in the Measurement IPSAS	Respondent 09
71	53	Measurement	We propose that the reference to impairment guidance in this paragraph be deleted as it is not relevant to the revenue principles.	No Action - agreed with the concept present - paragraph clarifies credit losses are excluded from the calculation of revenue and impairment is considered as part of IPSAS 41	Respondent 09
71	57	Measurement	The first sentence refers to 'price concessions' and 'performance bonuses'. Consider whether there is a better term for 'price concessions' in the context of taxes, fines etc. and consider whether 'performance bonuses' are relevant to the types of transactions within the scope of this ED.	Agreed - terminology updated to "negotiated concession"	Respondent 09
71	58	Measurement	This paragraph allows for the use of one of two methods to estimate the amount of variable consideration. If the principles on transaction price are applicable to all types of revenue transactions without performance obligations (including taxes), it will change the measurement of taxes. IPSAS 23 required an entity to measure tax revenue using a 'best estimate'. This could have resulted in an entity only developing one possible outcome for tax collection. Applying the principles in paragraph .58(a) and (b) will require entities to develop multiple scenarios for tax revenue which may be extremely onerous. When the IPSASB issued the Consultation Paper, there was a view that the accounting for transactions without performance obligations would remain largely unchanged. We are therefore unsure why the measurement approach has been changed to align with IFRS 15, as the accounting for some of these transactions may now become more complex. We propose that the accounting for tax revenue should be kept closely aligned with the principles established in IPSAS 23. If the requirements from IFRS 15 on transaction price are retained, we suggest that the application guidance for tax revenue should indicate that an entity need not apply paragraphs 58(a) or (b) where there are variable inflows but can develop a single best estimate.	No action - best estimate is the "most likely amount" - paragraph 84 has been updated to indicate it is expected that taxes will be measured at the transaction amount and the end of sentence now indicates "which is consistent with most likely amount with paragraph 58".	Respondent 09
71	61(a)	Measurement	We question the consideration of "a high risk of obsolescence of the inflow when it non-cash" in this section as the "transaction price" is only applicable to "cash transfers" in accordance with paragraph 50. We are also unsure whether references to "volatility in the market" and "weather conditions" are appropriate for the types of transactions in the scope of ED 71.	Agree - transaction price section has been updated for consistency with ED 70 as it relates to non-cash consideration. - in-period review document indicated cash transctions were measured at transaction price and non-cash transactions were measured at fair value - now all transactions are measured at transaction price. However, transaction price for a non-cash tranasction is fair value.	Respondent 09
71	62	Measurement	The guidance should be expanded to explain how the change should be accounted for, i.e. include a reference to IPSAS 3 (see paragraph 83 as well as ED 70). If the reference is included here, it could potentially be deleted in paragraph 83.	No action - consistent with ED 70	Respondent 09
71	66	Editorial	We question the need for the reference to "taxable event" as the guidance in this paragraph is meant to deal with all types of revenue without performance obligations and not just taxes.	No action - consistent with IPSAS 23	Respondent 09
71	69 to 71	Editorial/ Structure/ Measurement	The comment raised is similar to the comment raised on ED 70. *General – placement of guidance* We do not believe that it is appropriate to discuss the subsequent measurement of receivables in the revenue Standard. *General – use of amortised cost* When the Consultation Paper requesting views on accounting for statutory receivables predates the issuing of IPSAS 41. Many of the principles for amortised cost and impairment have changed significantly. It is therefore unclear whether constituents will have the same views given the complexity in the new approach. It would be useful for the staff to present a paper to the board outlining (a) how the new IPSAS 41 requirements will apply to transactions that are not undertaken in a market, (b) how all the complexities will be dealt with in the new ECL model for transactions that are not contractual, (c) is there sufficient information about credit risk + its management to apply the new ECL. Applying the full ECL model may not be appropriate – a simplified version may be appropriate for statutory receivables (e.g. always a lifetime approach, and only estimate cash flows using historical data).	No action - SMC added asking "Do you agree with the IPSASB's proposals in paragraphs 73–75 that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, why not?"	Respondent 09
71	69 to 71	Editorial/ Structure/ Measurement	Uncertainty over requirements in IPSAS 41 to be applied Paragraph 70 simply refer to applying amortised cost in paragraph 69 – 70 of IPSAS 41. What does this mean? Only in determining interest, or also impairment losses? It is also unclear whether purchased originated credit impaired requirements will need to be applied to these receivables. How will derecognition be applied? Will any disclosures from IPSAS 30 be applied? There are no consequential amendments proposed in ED 71 to IPSAS 30. What transitional provisions apply for the measurement of non-contractual receivables?	Agreed - the wording in this section was simplified based on amendments made to the AGs of ED70. Wording from ED70 was imported to maintain consistency.	Respondent 09
71	72 to 84	Editorial	We propose that, as opposed to including a reference to "other compulsory contributions and levies" throughout the text, a single paragraph could be included to explain that similar principles to that on taxes are applied to other compulsory contributions and levies.	Agreed - the term will "Taxes and other compulsory contributions and levies" has been removed. - "Taxes also include other compulsory contributions and levies." will be added as the third sentence to paragraph 28, the first paragraph that explains the defintion of taxes.	Respondent 09
71	8	Scope	It is unclear how this paragraph interacts with ED 70 (paragraph 5, as well as AG70 and AG71). *Paragraph .08 of ED 71 and paragraph .05 of ED 70* Where transactions are dealt with in other IPSAS, ED 70.05 refers to applying the requirements in the other standards first, and then applying ED 70. It is unclear if this guidance is meant to deal with 'hybrid transactions' or other transactions with performance obligations with components. The interaction between paragraph .05, AG70/AG71 of ED 71, and paragraph .08 of ED 71 will need to be reconsidered. *Paragraph .08 of ED 71 and paragraph ED70.AG70 and AG71* ED 70.AG70 indicates that there is a rebuttable presumption that an entity will be able to allocate the transaction price to the goods or services. ED70.AG71 indicates that where the presumption is rebutted, the entity should disaggregate the transaction price into its components.	No Action - ED70.5 requires other standands be applied if a component is seperable. If not apply ED70 - ED71.8 requires ED70 be applied if the components cannot be distinguished Action - remove reference to AG70 and AG71 in paragraph ED71.8. The reference requires applying AG 70 and AG 71 when the component is not seperable. However, AG70/71 apply when the component is seperable.	Respondent 09
71	81 to 84	Measurement	We have observed that there are inconsistencies between the measurement of cash and non-cash assets proposed in paragraphs 50 and 51 and the measurement paragraphs for taxes. The following are examples: -Paragraph 81 only refers to 'fair value'. Based on paragraph 51, this would then only apply to non-cash assets. As taxes are likely to be collected in cash, we believe that reference should be made to both transaction price (cash) and fair value (non-cash). -Paragraph 82 seems inconsistent with the approaches outlined in paragraphs 58(a) and (b) – see comments on that paragraph for taxes. There are similar examples in the application guidance for the other transaction types (e.g. AG37, AG42 and AG53 still refers only to fair value).	No action - best estimate is the "most likely amount" - paragraph 84 has been updated to indicate it is expected that taxes will be measured at the transaction amount and the end of sentence now indicates "which is consistent with most likely amount with paragraph 58".	Respondent 09
71	85	Other	We are not sure what this guidance is meant to achieve and propose that it should be reconsidered.	No Action - IPSASB requested guidance on taxes with long collection periods be addressed. Guidance is consistent with the variable constraint requirments of transaction price.	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	9	Scope	The last sentence clarifies that ED 71 provides guidance on the identification of contributions to owners. The recognition and measurement of contributions from owners are not dealt with in ED 71. The definition of transfers of transaction price specifically excludes contributions from owners. We question this exclusion of contributions from owners in these definitions as the objective of ED 71 already clarifies that contributions from owners are not dealt within ED 71. We therefore propose the deletion of the reference to contributions from owners in these definitions.	No Action - agree conceptually with the point. However, as definitions may be applied in other standards, whether contributions from owners are included or not is necessary	Respondent 09
71	9	Editorial	Reference to good, service and another asset The definition of a transfer recipient and transfer provider refers to the 'transfer of a good, service or another asset'. The concept of 'other asset' is not included consistently when reference is made to the transfer of goods and services (for example paragraph .04). ED 70 includes a footnote to explain that goods and services may encompass non-current assets. We propose that consideration should be given to the inclusion of a footnote similar to that in ED 70, and that the text in ED 71, where assets are specifically mentioned alongside goods and services, be reconsidered for consistency with ED 70.	Agreed - reference to be added as a footnote in paragraph 4 - footnote is based on footnote in ED70	Respondent 09
71	9	Editorial	Other compulsory contributions In our view, the last part of the definition which refers to "used in the provision of specified government programmes" is very broad. From our reading of the basis for conclusions, these contributions are limited to contributions to "social security and similar schemes". We propose that "of specified government programs" be amended to "of social security and similar schemes".	No Action - based on a consequential amendment from IPSAS 42. IPSASB approved	Respondent 09
71	9	Editorial	Transfer price Delete the reference to "other than contributions for owners". Editorial: Include "expects to be entitled to in …"	No Action - "contributions from owners" defintions are required to be applicable across multiple standards - "to be" is consistent with ED70, no change made	Respondent 09
71	9	Editorial	Transfer provider As a good, service or another asset can also be provided to an individual, we propose that following amendment: "……or other asset to another entity or an individual without….)	No action - an indiviudal is included in the concept of an entity	Respondent 09
71	91	Other	We propose that the paragraph should clarify that that not all transfers are without performance obligations as some may be in ED 70 (also refer to the comment earlier).	No Action - if an arrangement includes a performance obligation it is not a transfer - transfers occur when one party provides an asset to another party with nothing given in return - transactions with performance obligations always include something returned (either to the other party in the arrangement or a 3rd party)	Respondent 09
71	91-96	Capital transfers	These paragraphs only deal with recognition of transfers – guidance should also be provided on measurement.	No Action - measurement of capital transfers is covered in measurement of transfers	Respondent 09
71	92	Editorial	Capital transfers Questioning the logic and alignment of this paragraph with the definition of a capital transfer. Here we refer to "an outflow or resources from capital transfers that do not arise from a binding arrangement", but the defintion of capital transfer says that it must arise from a binding arrangement. May need to re-work this paragraph to find a way to avoid referring to a "capital transfer".	Agreed - pargarph 92 was deleted. - a captial transfer does not arise from arrangments that are not binding arrangements. Paragraph provided no benefit and was confusing.	Respondent 08
71	93	Capital transfers	The propose that the paragraph should be expanded to explain the point of recognition (as par 92).	Agreed - pargarph 92 was deleted. - a captial transfer does not arise from arrangments that are not binding arrangements. Paragraph provided no benefit and was confusing.	Respondent 09
71	95	Capital transfers	Not clear what the intent of this parapgraph is. By definition, a capital transfer must include a specification to acquire or construct an asset. The scenario in para 95 therefore seems impossible, or misaligned with the defintion. If we are in the presence of a capital transfer, it is because we have established that the agreement include a specification to acquire/construct an asset, and therefore how could such a specifciation not be an enforceable activity to incure eligible expenditures? We sould consider clarifying. I anticipate this will be confusing to readers. Also, I don't see an illustrative example for this scenario. If I am missing something and this scenario is in fact valid, we should consider an example to clearly illustrate its intent.	Agreed - pargarph 95 was deleted. - Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion.	Respondent 08
71	95	Capital transfers	We propose that some principles in IPSAS 11 be incorporated here (or in the AGs) to guide entities on how they can systematically recognise revenue over the period of the construction of the asset.	Agreed - pargarph 95 was deleted. Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion. - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?" - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?"	Respondent 09
71	AG 20	Capital transfers	There should be included the exception for capital transfers where not all obligations are relevant for this standard (e.g. ED 71.96 additional obligation regarding subsequent use of an asset).	Agreed - paragraph 96 is removed - SMC added asking "- SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?""	Respondent 07
71	AG 33/ 34	Editorial	AG 33 requires every year end to update its assessment of amounts for which it expects to be collected. AG 34 states: "since estimating revenue is only required once the entity can determine …" It seems that these statements are inconsistent.	Agreed - paragraph AG34 was removed	Respondent 07
71	AG 35ff.	Editorial	As the reference is to paragraph 97 these chapters should be arranged after AG 48.	Agreed - Structuring to be updated	Respondent 07
71	AG 42 Subtitle	Editorial	There subtitle should be clarify that only non-cash assets are discussed in the following chapters.	No action - AG42 discusses monetnary and non-monetary assets	Respondent 07
71	AG 42	Editorial	There should a reference to "transferred non-cash assets". Cash assets are measured at its transaction price (ED 71.50).	Agreed - terminology to be updated	Respondent 07
71	AG 42	Editorial	Also include a reference to IPSAS 27 and 31.	No action - consistent with IPSAS 23	Respondent 09
71	AG 42 Subtitle	Editorial	The reference should be to paragraph 51 instead of 52.	Agree - Reference updated	Respondent 07
71	AG12	Editorial	We are of the view that this is a management issue and propose that it should be deleted.	Agreed - to be deleted	Respondent 09
71	AG13	Editorial	We question the conclusion in the last sentence. The reporting of information on completion seems to be an administrative action rather than creating a present obligation. We propose that the explanation should be reconsidered.	No action - guidance is provided to help with determining when to recognize revenue and when the enforcable activity is satisfied	Respondent 09
71	AG18, AG22, AG23	Binding arrangement	We have comments on the equivalent paragraph in ED 70. Please see our comments on ED 70.	No action - staff agree the clarifcation, however, the definition of Binding Arrangment was agreed by the IPSASB in 2018. - the concept of "rights and obligations to both parties" is addressed in AG14	Respondent 09
71	AG2	Editorial	We propose that the guidance in this section should be deleted as it does not add any value.	No Action - added to align sections in Ags with core standard.	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	AG34	Measurement	We question the relevance of the principle on the reduction in the volatility on revenue in this paragraph and propose the deletion of the sentence. It also contradicts paragraph 62 as well as 83/84 on adjustments to revenue estimates in subsequent periods.	Agreed - this concept is more relevant as a BC - the concept is already addressed in BC16/17/18	Respondent 09
71	AG48	Capital transfers	First 3 lines explaining the recognition of revenue for the usage of non-financial asset and it is also common in our jurisdiciton. The IPSASB should consider "conceptual" rationale for denying deferred recognition of revenue corresponding the usage of assets. In our jurisdiction, capital transfer for the assets used in perpetuity is not recognized revenue but the transfer is recognized as net assets (In the IPSAS literature, it would be recognized as "other obligation" in the *Conceptual Framework)* .	Agreed - pargarph 96 was deleted. Therefore corresponding paragraph AG 47 and AG48 is also deleted. - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?" - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?"	Respondent 05
71	AG48	Capital transfers	We should consider more clearly articulating the reason why the requirement to use an asset once constructed/purchased is not resulting in further deferring the capital transfer subsequent to the procurement of the asset. As currently written, there is no priciple-based rational provided. One possibility is to acknowledge that any requirement stated in a transfer agreement that merely repeats a recipient's obligation that already exists under its stated mandate or objective does not have substance and is therefore not arising from the transfer itself. This rational is aligned with my comment above under para 23, under the heading: stanbstance over form.	Agreed - pargarph 96 was deleted. Therefore corresponding paragraph AG 47 and AG48 is also deleted. - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?" - SMC added asking "Do you agree with the sufficient guidance exists in [draft] IPSAS [X] (ED 70) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?"	Respondent 08
71	AG8	Editorial	The paragraph indicates that 'the arrangement is accounted for within the scope of this draft Standard when the entity (transfer recipient) is able to determine who will receive the training services..'. We are unclear of the meaning of this sentence. How would the identification of recipients of training services determine the scope? Suggest deleting or rewording.	No action - being able to determine who receives the training is an indicator of control. If the transfer recipient maintains control of the good/service, the transaction is in scope of ED 71	Respondent 09
71	AG9(b)	Editorial	Ordinary transfers could be included in AG9(c) as they are currently omitted, or alternatively paragraph AG9 should refer to (a) taxes and (b) transfers, including capital transfers, debt forgiveness…etc.	Agreed - combined (b) capital transfers with (c) "other transfers"	Respondent 09
71	Amendments to IPSAS 40. IE 164	Editorial	The term "grants" seems no longer suitable. It should be changed to "transfers".	Agree - the term grant will be replaced with transfer throughout	Respondent 07
71	Amendments to IPSAS 41.2 j	Editorial	The term "non-exchange revenue transactions" should be changed to "transactions without performance obligations". Renaming was made e.g. ED 71. Amendments to IPSAS 41.37	Agree - the term non-exchange will be replaced with no performance obligation throughout	Respondent 07
71	Amendments to IPSAS 41.87	Editorial	The term "exchange revenue transactions that are within the scope of IPSAS 9" should be changed to "transactions with performance obligations in the scope of ED 70".	Agree - the term exchange will be replaced with performance obligation throughout	Respondent 07
71	Amendments to IPSAS 41.AG33	Editorial	The reference to IPSAS 9 should be changed to ED 70.	Agree - Reference to be updated	Respondent 07
71	Amendments to IPSAS 41.AG6	Editorial	The term "conditions" should be changed to "other obligations".	Agree - Reference to be updated	Respondent 07
71	Amendments to other IPSAS	Editorial	*IPSAS 1 – par 88(g)* Amend "recoverable" to "receivables" *IPSAS 30* At present the amendments only refer to credit risk disclosures. There may however be other disclosures that are relevant to assessing the significance of receivables to the statements of financial position and performance (e.g. on the classification of instruments, the use of an allowance account etc.)	Agree - Reference to be updated	Respondent 09
71	Basis for conclusions	BC	We do not believe that the basis for conclusions adequately explains the rationale for changing the delineation of transactions to those with, or without performance obligations. Simply saying that the Board proposed in the CP and constituents agreed does not explain the conceptual rationale for the change. The basis for conclusions should adequately explain why/how the change in approach better contributes to providing information to hold entities accountable and make decisions	No Action - BC5 outlines the issues constituents had with exhcnage/ non-echange differentiations - BC6 oulintes how IFRS 15 presented a new model - BC7 outlines constituents agreed with IPSASB view to adopt performance obligation approach	Respondent 09
71	BC21	Capital transfers	I question the accuracy of the last sentence stating that under IAS20, a capital transfer would never be classified as revenue. I think this statement is only true for capital transfers treated as a reduction of the carrying amount of the related asset (i.e. capital approach). But in the case of capital transfers treated as deferred income (i.e. income approach), the amortization of the deferred income would be reflected as grant revenue on the profit and loss statement. At least, this is how we are treating this in Canada. I see two main reasons why IAS20 generates a different accounting result. The first is, as metioned above, when a capital transfer is treated as a reduction of the carrying amount of the related asset. The second, when treated as deferred income, it gets amortized over the useful life of the asset (slower recognition overtime), rather than being recognized as enforceable activities are satisfied or eligible expenditures are incurred (faster recognition). I find these two main differences could be made clearer in BC21.	Agreed - last sentence removed	Respondent 08
71	BC23	BC	The explanation in this BC contradicts the principle in the ED and should be reconsidered.	Agreed - the word "recogntion" was added between "different" and "requirements" - replaced "financial reporting treatments" with "recognition point".	Respondent 09
71	BC24	BC	Last line refers to ED70, but paragraph 41 of IPSAS 23 is leading to non-exchange transaction. Therefore I think this paragraph should refer to ED71.	No action - it is correct if the compoents cannot be separated the transaction is accounted for under ED70	Respondent 05
71	BC25	BC	We question why this explanation was included in the BC as this ED does not deal with the recognition and measurement of contributions from owners. We propose that it should be deleted. Also, the reference to the paragraph in the BC incorrect.	No action - IPSASB instruction to keep IPSAS 23 BCs relevant to ED71 - Reference updated to paragraph 6	Respondent 09
71	BC26	BC	The sequence should be always "Transaction price or fair value" and not "fair value and transaction price" in referring to ED 71.50 & 51.	Agreed - wording to be updated	Respondent 07
71	BC27	BC	The paragraph explains that cash should be recognised because of a principle established in the Cash Basis IPSAS. This is inappropriate – the principle for recognition of cash should be based on the principles in accrual-basis IPSAS.	No action - IPSASB instruction to keep IPSAS 23 BCs relevant to ED71	Respondent 09
71	BC30	BC	I'm not sure if the statement is correct or not: "In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable …" ED 71.105 is referring to "the transfer arrangement is not binding". Enforceability is only an action in a binding arrangement but there are more actions required that an arrangement is binding.	No Action - funds received in advance of a taxable event, or binding arrangement taking place may need to be returned	Respondent 07
71	BC31 and 32	BC	We question the need for this explanation and propose that it should be deleted.	No action - IPSASB instruction to keep IPSAS 23 BCs relevant to ED71	Respondent 09
71	BC37 and BC38	BC	There is a duplication in both paragraphs. My suggestion is to delete the last sentence "The IPSASB considered the issue in developing IPSAS 42, Social Benefits." in BC37	No Action - amendment approved by IPSASB as part of IPSAS 42 project	Respondent 05
71	Definitions	Definitions	ED71 does not include a definition of revenue. Staff explanation for this in the supporting papers is that revenue is not used in ED71. This is clearly not the case and I am of the view that the ED/Standard should include a definition of revenue on a consistent basis to ED70. For me it is particularly important to include this and to make it clear when revenue is revenue rather than contribution from owners (not least because in government and public sector group structures, the owners can ofen be a key source of both revenue and contributions from owners in their ownership capacity.	No action - revenue is defined in IPSAS 1. General IPSAS policy is to define term once. Later IPSAS refer to IPSAS the defintion is defined in	Respondent 02

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	Definitions	Definitions	In effect however ED71 is using 'transfer' as a replacement for revenue however paragraph 3 of ED 71 makes it clear that transfers are a subset of the revenue that is in scope for the ED. ED71 includes a definition for transfer but when compared to the definition of revenue it is really similar. I am concerned therefore that the terminology being used in ED71 is not crisp enough. I have reproduced below to illustrate the similarity in definition:	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."	Respondent 02
71	Definitions	Definitions	Transfers are inflows of future economic benefits or service potential from transactions without performance obligations, other than contributions from owners. Transfers include taxes.	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."	Respondent 02
71	Definitions	Definitions	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.	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."	Respondent 02
71	Definitions	Definitions	I think the transfer definition in ED71 needs to be reviewed or deleted. I am in favour of a common definition and terminology wherever possible for revenue and for the scoping section rather than the definition section to be shere it is made clear as to the scope of revenue transactions that are dealt with in the ED/standard. For me, the ED70 definition of revenue could be used in ED71 and the definition of 'transfer' deleted from ED71. An alternative is to use 'revenue from taxes and transfers' or something similar in ED71 but include definitions of both in ED71 and/or include a defintion of revenue in ED71 on a consistent basis to ED70 and then re-define the term transfer with an explanation in ED71 as to how it is used in the ED/Standard (given that it is used in a way that incorporates taxes and transfers).	Agreed - Definition of Transfer is being removed - Definition of Transfer Revenue is being inserted "Transfer Revenue is is a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without providing any good, service, or other asset in return."	Respondent 02
71	Definitions	Definitions	ED71 paragraph 3 makes it clear that the ED/Standard includes transactions from binding arrangements. I am therefore of the view that binding arrangement asset and binding arrangement liability should be included in the definitions and in the ED/Standard (even if reference is then made to ED70).	No action - Binding Arrangement asset/liability concept is not applied in ED 71 because some advance receipts don't relate to a BA. However, a simlar concept is addrssed in paragraph 105.	Respondent 02
71	Diagram	Editorial	We noted that ED 70 does not provide any guidance on the disclosure of the increase in an asset where the definition of an asset is not met (first block on the right). The reference to paragraph .39 is incorrect as this paragraph explains that when the definition of an asset is met, consideration should be given to provide disclosures of a contingent asset. The block on the right is meant to deal with scenarios where the definition of an asset is not met. We propose that the fifth block on the left should make reference to "performance obligations as defined in ED 70".	Agreed - paragraph reference will be removed	Respondent 09
71	Diagram	Editorial	We note that a similar diagram is not included in ED 70. It may be useful to develop a diagram for ED 70 explaining the linkages with ED 71.	No action - IPSASB agreed to align with the concepts of IFRS 15 as closely as possible. No public sector reason to develop a flow chart (flowchart helps with scoping of both standards)	Respondent 09
71	Diagram	Editorial	We also note the following regarding the diagram: - The first block indicates 'does the inflow…' – consider changing this to 'resource' as there may not be a flow (e.g. a right to receive a resource when a binding arrangement is concluded). -There is no discussion on hybrid transactions in the flow chart. We propose that the diagram should also explain the accounting considerations of dual/hybrid transactions as these are currently not addressed in the diagram.	No action - IPSASB has agreed to the flowchart, only fatal flaws addressed	Respondent 09
71	Disclosures	Disclosures	The disclosure requirements in ED 70.109 to enable users to understand the nature, amount, timing and uncertainty of revenue arising from binding arrangements will be useful as well. We propose that a similar disclosure should be included in ED 71. As the disclosure requirements in ED 70.127 on determining the transaction price will also be useful, we propose that similar requirements should be included in ED 71. No specific disclosure requirements are included for capital transfers. We are of the view that users will find disclosure on the nature of these arrangements, progress with construction and/or development, and on the extent to which enforceable activities or eligible expenditure were satisfied. We propose that consideration be given to the inclusion of disclosures on capital transfers.	See Memo - Ageda Item 5.2.4	Respondent 09
71	Disclosures	Disclosures	In addition, disclosure requirements in paras 116-118 in ED70 should be included in ED71	See Memo - Ageda Item 5.2.4	Respondent 02
71	Disclosures	Disclosures	In order to help preparers, I think there would be benefit in ED71 to replicate paras 110-112 of ED70	See Memo - Ageda Item 5.2.4	Respondent 02
71	Disclosures	Disclosures	ED70 requires disclosure of revenue recognised from binding arrangements that include performance obligations however ED71 does not require specific disclosure of revenue recognised from binding arrangements without performance obligations and instead requires disclosure of revenue by type for revenue that falls within this standard. I am of the view that there would be value in ED71 disclosures making it clearer as to the distinction between revenue from binding arrangements and revenue earned without binding arrangements. This would mean that when ED70 and ED71 are adopted in a set of financial statements, the disclosures would show the major classes of revenue under each of three main types – revenue from binding arrangements with performance obligations, revenue from binding arrangements without performance obligations and revenue without binding arrangements. For me, this would be a clearer set of comprehensive revenue disclosures. It would also mirror the principles of the disclosures in ED72	See Memo - Ageda Item 5.2.4	Respondent 02
71	Disclosures	Disclosures	ED71 does not include an explicit requirement to disclose impairment losses. For me, impairment losses can occur in ED71 revenue streams and this to me would be a helpful disclosure. I am therefore of the view that the ED70 para 113 type disclosures on impairment losses should be replicated as a requirement in ED71	See Memo - Ageda Item 5.2.4	Respondent 02
71	Disclosures	Disclosures	Information on assets recognized from costs to obtain or fulfill a binding arrangement, including significant judgements are required in paras 128-129 of ED70. Given that ED71 also includes income from binding arrangements, I think that the disclosure requirements of ED70 should be replicated in ED71 for binding arrangements without performance obligations.	See Memo - Ageda Item 5.2.4	Respondent 02
71	Example IE #10	Examples	Example 10 – [Document ends]	No action	Respondent 08
71	Example 12	Examples	The term "grants" seems no longer suitable. It should be changed to "transfers".	Agree - Term will be updated to transfers	Respondent 07
71	Example 12. IE 26	Examples	To be clear a sentence referring to "when the agreement becomes binding" like in IE 40 should be added.	Agree - Examples will be updated as follows - IE26, "under the terms of the bindng arragement agreement" - IE27, "…recognizes the transfer as an asset when the arrangement becomes binding"	Respondent 07
71	General	Disclosures	Paragraphs similar to paras 104-108 in ED70 should be included in ED71	See Memo - Ageda Item 5.2.4	Respondent 02
71	General	Editorial	Editorial comments – See attached marked up version in following paragraphs: Core text: 17, 96, BCs: BC9, BC20, BC22, Illustrative examples: Ex 12	No action - edits will be done as part of editorial process	Respondent 08
71	General, flowchart page 15	Editorial	The flow chart has been changed without any discussion with the Board or any highlighting to draw attention to this signifiacnt change. The change is significant, because it introduces the assertion that all transactions with binding arrangements, but no perfomance obligations must contain present obligations. This is not a discussion that the Board has had, and nor would I personally feel comforatable to make such a sweeping change at this very late stage. The original version of the flow chart therefore needs to be restored, and an SMC asked instead if this is felt necessary. I accept that there could be some minor wording problems with the bottom boxes in the orginal version of the flowchart, but thes can be easily fixed without this unnecessarily drastic approach.	Agree - flowchart updated to amend for change made	Respondent 03

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	General: guidance on advance receipts	Structure	In reading ED 71, we noted that guidance on advance receipts is addressed in a number of sections (for example paragraph .26 and paragraph .105). We propose that all the guidance advance receipts should be addressed in one section.	No action - Paragraphs 26/27 are general guidance, paragaphs 80 and 105 are specific to taxes and transfers	Respondent 09
71	General: Guidance on determining transaction price	Measurement	We question whether the guidance on determining the transaction price applies to revenue transactions without performance obligations arising from binding arrangements as well as to those that do not arise from binding arrangements. There seemed to be inconsistences between paragraphs 50 and 51 and the text on the specific transaction types from paragraph 72 onwards. We propose that the application of transaction price should be clarified as part of the considerations on the structure of ED 71.	Agree - Gudiance has been updated and structure is consistent with ED70. All transactions in scope of ED71 are now measured at transaction price. For non-monetary items, the transaction price is the fair value.	Respondent 09
71	General: Guidance on taxes	Structure	The guidance on taxes is dispersed throughout the proposed Standard, for example paragraphs .28 to .30 and again in paragraphs .72 to 80. We recommend that consideration should be given to combine the guidance into a single section dealing with taxes. It should also be considered whether there should be such a clear emphasis on taxes, as taxes are just one type of revenue without performance obligations applies.	No action - Paragraphs 28-30 are general guidance, paragaphs 72 and 80 are specific to taxes	Respondent 09
71	General: Structure	Structure	Paragraphs 31 to .71 outlines the general principles to be applied in accounting for revenue without performance obligations. Paragraphs .72 to .107 then seem to explain how these principles are applied to certain transactions, such as taxes and transfers. We are of the view that the guidance in paragraph .72 to .107 is more suited in the application guidance to ED 71.	Agreed - guidance has been restructured to better highlight the type of guidance being provided. Secions on revenue from Present Obligations, Revenue without Present Obligations and specific guidance. - see structure memo for more details	Respondent 09
71	General: Binding Arrangement	Scope	The scope of ED 71 makes a distinction between transactions that have performance obligations in binding arrangements, and transactions where there is no binding arrangement. BC9(b) indicates that transactions without binding arrangements include taxes, bequests, fines, and donations.	Agreed - New senteance added to the end of BC9 stating "while these transactions may not arise from bindings arrrangements, they may be a result of another arrangement such as legislation"	Respondent 09
71	General: Binding Arrangement	Binding arrangement	We note that the definition of a binding arrangement (in ED 70) is drafted in a neutral way to indicate that the arrangement (a) confers rights and obligations to the parties to the arrangement, and (b) that the rights and obligations should be enforceable. The definition does not imply that there needs to be both rights and obligations for both parties to the arrangement, nor does it indicate that the rights and obligations need to be equal. We are therefore uncertain why there is no 'binding arrangement' for taxes, fines, bequests and donations. For example: for a tax collection agency, the agency has a right to levy taxes, and the taxpayer has an obligation to pay. Both the right and the obligation are enforceable through tax law. The same applies for donations: the donor has an obligation to pay, and the recipient has a right to receive.	No action - agree with the point, however, ED70 has been locked down and tentatively approved by the IPSASB in June 2019 - AG14 talks about a Binding Arrangement confring enforceable rights and oblgiatons on all parties to the arrangement. As this is an approved definition, no change made	Respondent 09
71	General: Binding Arrangement	Binding arrangement	One of the key criteria for accounting for transactions in ED 71 is demonstrating that an entity has control of a resource. It would be very difficult to demonstrate control if there is no 'binding arrangement'.	No action - when resources with no binding arrangement, the recipient controls the resources immediately	Respondent 09
71	General: Binding Arrangement	Binding arrangement	If the staff/Board are of the view that the definition of a binding arrangement should be interpreted differently, then we believe that there would need to be a modification made to ED 71 to indicate that although there is no binding arrangement as envisaged in ED 70 (and explain why), then it should be clear that there is another legal arrangement that governs these arrangements. This does however become quite complex as ED70.AG11, and ED71.AG18 both indicate that 'binding arrangements' include those that arise from statutory and other mechanisms.	No Action - statutory arrangements can be binding arrangement when the legislation creates enforceable rights and obligations on both sides of the arrangmeent (example - in Canada we have Carbon Pricing where amounts are paid to the federal government and legislation requires they are redistributed to citizense through an income tax credit). - not all statutory arrangement are binding arrangements when they don't create rights and obligations for both parties (income taxes are paid, but no requirement to spend on anything particular)	Respondent 09
71	Measurement	Measurement	Incorporating the 'highly probable constraint into ED71 where revenue is uncertain. I question whether this gives the right answer to the recognition and measurement of income in ED71. In particular, I question this when it comes to taxation revenue. I do not agree that should recognise no revenue at all until it is highly probable in the way described in paras 7-9 in the measurement memo on this topic. An entity could be 100% certain that they will get at least $x however the example is suggesting in this scenario no revenue would be recognised at all until an entity is virtually certain it knows the exact amount it will receive. I can think of examples where governments are recognising taxation revenues based on estimation techniques. What is being proposed here could be a significant change in practice and I am not sure it is the right answer. For me, this needs more consideration and work	Agreed - staff to develop non-authoratative example	Respondent 02
71	scope	Scope	ED 71 Scope is currently described as follows: The objective of this [draft] Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions without performance obligations (as defined in [draft] IPSAS [X]} (ED 70), Revenue with Performance Obligations)), other than non-exchangefrom transactions that give rise to a public sector combination. This [draft] Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions without performance obligations, including the identification of contributions from owners. This is far too convoluted, and I don't see why we need the cross-refence to ED 70 in the scope a performance obligaiton when it will be a defined term. It is certainly confusing and unnnecessarily long-winded. At most I would insert a footnote to make this reference. I suggest a much simpler formulation as follows, which would be more consistent with the objective for ED70: 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 transactions without performance obligations, other than transactions that give rise to a public sector combinations.	Agreed - objective paragraph has been updated based on recommendation provided - scope now reads "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 transactions without performance obligations"	Respondent 03
72	4.00	Editorial	The Standard only needs to address distributions to owners. The text relating to contributions from owners should be removed. This applies throughout the Standard.	No Action. - The entity may be a controlling entity or an investor and may make contributions. This issue has been raised more than once at IPSASB meetings, suggesting a potential for confusion that is best addressed by an explicit reference.	Respondent 09
72	5.00	Scope	There is only one expense Standard (this Standard) requiring parts of a transaction be accounted for separately. As a result it is unclear what type of transactions would be included here. An example would assist. It seems to be a mirror of what is included in ED 70, but without understanding what transactions are envisaged, the paragraph may not be relevant in ED 72.	No Action. - See Example 3 which covers when an transaction may need to be separated into two parts, only one of which is covered by this ED.	Respondent 09
72	6.00	Definitions	Definition of "transfer expense": - Propose that references to "entity" be widened, as it could also be e.g. individuals. It would assist if the term is explained to include individuals. - The BCs include a discussion on using the GFS definition. Because of the use of "any good, service or other asset", guidance would be needed on transactions where a good, service or other asset of an arbitrary or of clearly lower value that what is given to the resource provider. - "Goods, services, or other assets" – it is not used consistently throughout the Standard. Some text just refers to "assets" and not "other assets". Since it has been clarified that "goods and services" incorporates assets, it is not needed.	Action. - Definition amended to clarify that the recipient entity may be an individual. - BCs – any receipt, even if of clearly lower value, is sufficient to take the transaction out of the scope of the ED – discussed by the IPSASB in June 2019. - Consistency could be reviewed by a review group.	Respondent 09
72	8.00	Editorial	The second sentence in this paragraph states 'Where the binding arrangement imposes performance obligations, as defined in [draft] IPSAS [X] (ED 70), on the transfer recipient . . '. However, in this context, the performance obligation is only for the transfer recipient to provide goods and services to 3rd party beneficiaries, not back to the resource provider and so only half the definition of ED70 holds.	Agreed. Amended to clarify that only refers to transfers of goods or services to third-party beneficiaries.	Respondent 02

ED	Paragraph	Theme	Comment	Staff response	Respondent
72	8.00	Scope	It may not be clear why transfer expenses with performance obligations are only in instances where the recipient has an obligation to transfer goods or services to third party beneficiaries. A reader should put together the ED 70 definition of a performance obligation, and the definition of a transfer expense in this Standard. This could be clarified in AG 8, and AG 23 could link to AG 8. It could also be explained in BC 37(b).	Agreed. - New paragraph AG25 added	Respondent 09
72	10.00	Editorial	I wonder if it should be made clearer that the binding arrangment only exists if the transfer recipient provides goods and services to 3rd parties. It says so in 10d ie that it is probable but could be made clear in the opening sentence?	Agreed. - Additional text added.	Respondent 02
72	69.00	Editorial	We struggled to really understand this paragraph.	No Action. - Text mirrors that in ED 70.	Respondent 02
72	132.00	Disclosures	This paragraph asks transfer providers to disclose informaiton about the transfer recipients performance obligations. We have two general comments to make: 1. It may be difficult in some aspects for the service provider to obtain the required information from the recipient and in many cases the transfer provider will feel that they have discharged their duty once the payment has been made; and 2. Leading from the last point in 1) above, the recipient will also be required to provide detailed disclosures about the grant/funding programme and how they are accountable for it. So there may well be a duplication of information being provided which a user would have equal access to as they are all government entities.	No Action. - The disclosure applies only to the PSPOA, and the information to be disclosed would be requried to apply that approach. Disclosure requires a description of the performance obligations, which would be available from the binding arrangement. - Re (2), the recipient may be a not-for-profit organization, or the provider an international organization, so the information may not be readily available.	Respondent 02
72	10(d)	Scope	Reconsider if this is sensible in the case of a transfer provider. The intention in ED70 is clear (linked to IFRS 15) where there is a risk of overstating revenue. The opposite is not true for expenses. This also applies to related paragraphs (e.g. paragraph 16). It is unclear how a transaction that does not meet the criteria in paragraph 10 will be accounted for (on the cash basis?). It is also unclear if an entity makes an advance payment what it would do if it is not probable that the transfer recipient has the intention and ability to provide goods and services to third party beneficiaries.	Agreed. - Paragraph 10(d) deleted. and text added that where criteria are not met, the accounting is as a transfer expense without performance obligations. Paragraphs 16 and 17 also deleted.	Respondent 09
72	101	Scope	Clarify that ED 72 does not apply to income taxes.	Agree. - Additional text added.	Respondent 09
72	116 - 118	Scope	Same comment as with ED 71. It is unclear why subsequent measurement of a liability is dealt with in this Standard when it should be IPSAS 41 or another Standard (e.g. IPSAS 19). Otherwise the scope of IPSAS 41 or IPSAS 19 should be amended to exclude payables from the arrangements in this Standard.	Agreed. Additional paragraph added (new 114) to address financial liabilities (in line with IPSAS 41). Existing paragraphs retained but only apply where not a financial liability (for example, liability to transfer a non-cash asset). IPSAS 19 is not relevant as the liability is not a provision.	Respondent 09
72	119	Scope	Same comment as with ED 70 and ED 71. It is unclear why transactions are in this Standard when they do not meet the definition of a transfer expense. Should an expense Standard deal with the subsequent measurement of a payable?	No Action. IPSASB decision to include in this ED. (Was originally included in Public Sector Specific Financial Instruments, then removed as per IPSASB decision, prior to the decision to include here.)	Respondent 09
72	132(b) and 133	Disclosures	These disclosure requirements are onerous. Consider instead of paragraph 133 whether the requirements in paragraph 132(b) are sufficient.	No Action. - The IPSASB has agreed that the disclosures for the PSPOA should be aligned with those in ED 70.	Respondent 09
72	19 and 20	Editorial	(Other Minor comments) The terms "price" and "consideration seem to be used interchangeably. Consideration should be the overall contract consideration, and price the specific goods or services.	No Action. - Text mirrors that in ED 70. In both cases, price and consideration are not defined terms and used in the general sense. Both are needed in these paragraphs to distinguish between the agreed price and the amount paid.	Respondent 09
72	2 to 5, Example 31 IE 171-173	Scope	Clarification of the scope of ED72 - should be clarified to follow consistent treatment with ED 70 and specifically that payments out with present obligations are accounted for consistently with inflows with present obligations i.e. outflows are to be expensed when the recipient of the outflow has met their present obligation. Our view is that example 31 IE171 to IE173 in the ED72 does not reflect this principle.	No Action. - Example deals with a transaction with no performance obligations, but with present obligations – mirroring a transaction within the scope of ED 71, not ED 70. The IPSASB agreed at its September 2019 meeting that the transfer provider does not have an asset in these cases, and therefore recognizes an expense when resources are transferred (or it has an obligation to do so), not when the recipient meets their obligations.	Respondent 10
72	21(a)	Editorial	As above, could perhaps make it clearer that the promised goods and services are to 3rd parties.	Agreed. - Additional text added.	Respondent 02
72	3	Scope	Should not mentioned that concessionary loans are excluded from the standard as they are dealt in IPSAS 41?	Agreed. - Although strictly not necessary (as with a loan there is a repayment to the provider, and the transaction is therefore not a transfer expense), staff agrees that the additional clarity will be helpful.	Respondent 07
72	32	Editorial	I don't understand the last sentence. Maybe the sentence could be shortened to: "An entity (the transfer provider) may determine the point at which the third-party beneficiary obtains control of the asset by reference to the transfer recipient losing control of that asset ~~where the entity (the transfer provider) has more reliable information to make this assessment~~."	Agreed. - Text deleted.	Respondent 07
72	32	Other	When needing to look at when the third party beneficiary loses control because more reliable information is available, no guidance is provided. The rest of the paragraphs only deal with when a third party beneficiary gains control.	No Action. - Recognition is intended to be based on third-party gaining control. Option to rely on transfer recipient gaining control is intended to be used where this information is easier to determine.	Respondent 09
72	39	Other	It may be difficult in practice to determine a third party beneficiary's progress.	No Action. - Accept that determining a transfer recipient's progress might be difficult, but if measuring the performance is not possible, it suggests that the binding arrangement is not enforceable, and should be accounted for as a transfer expense without performance obligations.	Respondent 09
72	41	Other	No explanation or guidance is provided in the standard on input methods [also see AG 49]. We suggest reconsidering the appropriateness of the input method and/or reinstating the guidance that was deleted. .	No Action. - The IPSASB agreed at its September meeting to remove this (and other) guidance, but to allow preparers to rely on the guidance in ED 70 where they had sufficient information to apply the guidance. See new AG26 (old AG25) (revised to refer to the input method in response to comment on AG25).	Respondent 09
72	44 -45	Other	Reasonable measure of progress It is unclear what an entity should do if they do not expect to be able to measure progress presently or subsequently. Should expenses be recognised on the cash basis? Or where cash has been transferred, an asset recognised? It is unclear how entities should determine what is a "reasonable measure".	Agreed. Guidance added that if cannot measure over time, treat as at a point in time. Reasonable measure is as per ED 70, no change.	Respondent 09
72	50 - 64	Measurement	Measurement – variable consideration. Refer to comments on ED 70 / ED 71.	No Action. Issue addressed by amendments to ED 71.	Respondent 09
72	75	Editorial	(Other Minor comments) The first sentence repeats the definition; suggest it be removed.	Agreed. - Text deleted.	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
72	89(a)	Scope	This approach should apply to all transactions outside the scope of the PSPOA, not just where a binding arrangement requires enforceable activities and/or eligible expenditure rather than performance obligations. The rest of the "transfer expenses without performance obligations" section would need to be updated to address the other types of transactions that would be in this section.	No Action. Staff consider that (old) 89(a) and 89(b) (now 87(a) and 87(b)) together includes all transfers outside the scope of the PSPOA.	Respondent 09
72	94-95, 115	Editorial	These paragraphas are corresponding to ED71 AG43-AG45, and therefore I recommend to move these paragraph into AG section rather than current core text.	No Action. - ED 72 follows the format of the latest IPSASB standards, and requirements for each type of transaction are included in the core text. ED 71 is based on the IPSAS 23 format, which is out of date.	Respondent 05
72	96 and after	Prepayment	I would suggest to add a paragraph to prepayments as in ED 71.105 to be more consistant between the standards. Acctually there is only ED 72.AG94.	No Action. - AG93 explains why a payment in advance of an obligation to make the payment would usually be recognized as an expense – treatment may not be symmetrical with ED 71.	Respondent 07
72	97	Appropriation	Refer to comment on ED 71. It should not be about the approval, but an obligation to transfer. [Also AG 86 to AG 108]	To Review - Staff received a second comment more recently with specific drafting suggestions to the text on appropriations in both ED 71 and ED 72. Staff propose to work with the respondents at the December meeting to review the appropriate text in both EDs.	Respondent 09
72	Aamendments to IPSAS33	Editorial	Lack of 154H. It may be the Effective Date paragraph.	Agreed. - Paragraph 154H (effective date paragraph) added [check with ED 70/ ED 71 re numbering]	Respondent 05
72	AG 10 – AG 15	Binding arrangement	See comments on Binding arrangements in ED 70 and ED71.	No Action. - Paragraphs are consistent with ED 70, no change proposed to ED 70.	Respondent 09
72	AG109	Editorial	Consider rewording the paragraph as it is describing a past event and links it to an expense. Presumably the paragraph explains when an entity has a liability, and the resultant expense.	No Action. - The paragraph is referring to cases where the expense is recognized at the date the resources are transferred, i.e., where there may be no liability (for example, where an entity gives a grant outside of a binding arrangement.	Respondent 09
72	AG25	Editorial	(Other Minor comments) The example would be more helpful if it e.g. explains why the information is needed and what financial statement item(s) are affected.	Agreed. - Example changed to input methods, and now refers to measuring progress towards complete satisfaction of a performance obligation.	Respondent 09
72	AG52 and AG53	Measurement	Refer to comment on ED 71. The rebuttable presumption referred to in the paragraphs are unclear. The presumption appears to be that consideration can be allocated to performance obligations without a portion with no performance obligations, unless an arrangement is explicit about consideration related to no performance obligations. Consider relocating the first sentence of AG 52 to AG 53.	Agreed. - Sentence relocated, and other changes made in line with amendments to ED 70.	Respondent 09
72	AG8	Definitions	The reason provided for principal-agent arrangements to be outside the definition of "transfer expense" does not seem correct as it is stated as being because the transfer provider gains control of the transfer recipient's output. However, principal-agent arrangements could be in the scope where an entity uses an agent to make transfer payments to a third party beneficiary. This paragraph is currently drafted as if principal-agent arrangements and arrangements where the transfer provider gains control of the transfer recipient's output is one idea, while it is separate.	Agreed. Paragraph AG8 amended to provide guidance that the transfer provider is always a principal, and the accounting is the same whether the transfer provider transacts directly with the transfer recipient or via an agent. A cross reference to paragraph AG23 is also added.	Respondent 09
72	AG95	Binding arrangement	The recognition section, specifically paragraph AG95, should also consider a binding arrangement requirement to return unspent funds to the provider. This occurs in practice and guidance would be needed. [Also BC 53]	Agreed. Paragraphs new AG96 (old AG95) and BC53 updated to include return of unspent funds.	Respondent 09
72	Amendments to IPSAS 42.IG 2	Editorial	Is the category "exchange or non-exchange transaction" still suitable. Shouldn't it be changed to transactions with/ without performance obligations? Shouldn't concessionary loans be included in the table?	Agreed. - Table amended	Respondent 07
72	BC 10	Editorial	Is the paragraph necessary?	No Action. - IPSASB decision to exclude contributions from owners and distributions to owners, current practice is to refer to all decisions in the BCs.	Respondent 09
72	Example 13.IE85	Examples	It belongs in ED 70 as it describes the revenue accounting and not the expense accouting.	Actioned. - Example amendded to refer to the transfer provider recgonizing an expense.	Respondent 07
72	Example 14.IE89	Examples	The accounting of the department of sience should be in the focus as it records the expenses. I'm not sure if the reference to the suppliers performance obligations helps to understand the principle.	No Action.	Respondent 07
72	Example 21.IE121 b)	Examples	The bookkeeping should be clearify if the revenue recorded over time or at inception.	No Action. - Wording indicates interest revenue is recognized over time (during … from … to …)	Respondent 07
72	Example 21.IE145	Examples	In the last sentence should be refered to "expenses" and not revenue: "… ans recognised ~~revenue~~ expenses for the transaction processing services as …"	Agreed. Change made	Respondent 07
72	Example 37.IE205	Examples	The principle/ clarification in ED 72.IE205 should be included in an AG or in the standard as it is very important. Otherwise there is a risk, that the arrangement will be included in the f/s. "… would not present the transfer provider's binding arrangement asset and the payable on a gross basis in the statement of financial position because … does not at that point have a present obligation."	No Action. - Core text refers to a present obligation. Example is too specific for core text.	Respondent 07
72	Example 4.IE 17 & IE20	Examples	I believe improving the "unemployment rate" is demanded instead of "unemployment".	Agreed. - Changes made	Respondent 07
72	Examples	Examples	Agency examples in ED 72 are necessary as these agreements exist in practice (As agreed at the workshop/meeting on Friday 15 Nov these can be submitted later by the UN TFAS)	Awaiting examples	Respondent 10
72	General	Scope	Overall scoping guidance would be useful. It is unclear which Standard entities should apply first, i.e. IPSAS 42, IPSAS 19 or this Standard. IPSAS 42 contains a table which aims to clarify this. Suggest the same table be included in this Standard. [It is currently not clear what the scope of Collective and Individual Services will be with regards to cash as the amendments to IPSAS 19 will only be issued January 2020.] It would be helpful if the scope explains that transfer expense transactions that do not fall in the scope of other Standards are in the scope of this Standard.	No Action. - Paragraph 3 lists items outside the scope of ED 72, including IPSAS 42, collective and individual services, etc. It is clear any items listed in paragraph 3 are covered by those Standards, not this ED.	Respondent 09
72	General	Binding arrangement	Recognition of a binding arrangement asset: right to have goods / services provided to third party beneficiaries This is first introduced in the Standard under presentation, but we believe that the requirements should be under recognition (paragraph 120). Also, the circumstances when an entity would recognise such an asset is unclear. BC21 explains that an entity would have an asset where the terms of the binding arrangement is such that an entity is required to transfer resources prior to the transfer recipient having satisfied performance obligations. The conclusion in BC 34 seems to be wider to apply to all binding arrangements, irrespective of whether an entity is required to transfer resources prior to the recipient performing. BC 34 should be aligned to BC 21.	No Action. Core text is aligned with ED 70. BC21 to BC 34 need to be read as a single argument.	Respondent 09

ED	Paragraph	Theme	Comment	Staff response	Respondent
72	General	Scope	Capital grants are not dealt with specifically in the Standard. Consider giving guidance on how the Standard should be applied to capital grants, e.g. by adding a note to the transfer expense definition.	Agreed. Reference added to Objective (paragraph 1).	Respondent 09
72	General	Editorial	(Other Minor comments) The Standard repeats text between "transfers with performance obligations" and "transfers without performance obligations", specifically recognition and measurement. Consider removing duplications with cross-references. E.g. paragraph 14 and paragraph 93.	No Action - IPSASB has agreed to include all requirements under each approach.	Respondent 09
72	General	Editorial	(Other Minor comments) Throughout the Standard, references are made to "an entity (transfer provider)", although in some instances reference is only made to "transfer provider". Consider, as in IPSAS 32 Service Concession Arrangements: Grantor, to clarify upfront that the Standard applies to transactions of the transfer provider. Throughout the Standard reference only needs to be made to "transfer provider", which is a defined term.	Agreed. - Review Group to consider replacing references to "an entity (the transfer provider)" with "the transfer provider"	Respondent 09
72	General	Editorial	(Other Minor comments) Consider consistency: Transfers with performance obligations are the transfer of control of goods or services to third party beneficiaries. The Standard sometimes just refers to the transfer of goods and services.	Review Group to consider consistency	Respondent 09
70, 71	General	Editorial	Accounting for transfer expenses and tranfer revenues is an important area for top level and intermediate level governments where there is no guidance on the expense side and insufficent guidance on the income side. To be useful, the defintions, and to the extent possible the accounting need to mirror each other as far as possible. This was discussed in June 2019 when the transfer expense scope and defintion were agreed. Agenda item 12.2.1, para 21 summarised the discussion as follows: 'Transfer expense and transfer revenue are not defined in GFS. Neither term is used in SNA. GFSM uses the term transfer expense once, to refer to expenses from transfers. ESA refers to transfer revenue to refer to revenue from transfers. Staff therefore do not consider that adopting the terms transfer expense and transfer revenue would cause any conflict with the terms used in GFS.' The diagram in Appendix A showed how the accounting should be mirrored, and proposed the terms 'Transfer Revenue with Performance Obligations' and Transfer Revenue without Performance Obligations'. While there was no formal Board decision or Instruction, the implication of the paper was that this approach should be carried over into both Revenue EDs. However there is no mention of 'Transfer Revenue with Performance Obligations' in ED 70 that I can see, and Transfer Revenue is not defined there, when it should be. There should also be perhaps AG text and certainly BC discussion and Illustrative Examples mirroring and making the links with ED 72. ED71 has exacerbated this lack of mirroring by expanding the definition of Transfers to include Taxation: Transfers are inflows of future economic benefits or service potential from non-exchange transactions without performance obligations, other than contributions from owners. Transfers include taxes. No reason for this change is given for this significant change, and it has not been discussed with the Board. Indeed it is actively unhelpful in that it introduces an unnecessary change that could confuse guidance users when ED71 is supposed only to be an update, and it ignores the need for mirroring with Transfer Expenses which should be one of the key project outputs. I would propose that the IPSAS 23 'Transfers' definition is removed and replaced with the term 'Revenue Transfers'. The definition which would be in ED 70 could then mirror the Transfer Expense definition in ED 72 as follows:	Agreed - See memo on Transfer Revenue / Transfer Expenses. Agenda Item 5.2.3	Respondent 03
70, 71, 72	SMCs	SMCs	I recommend to provide more SMCs. For example, each BC section can be the good thinking point for readers.	Agreed - additional BCs have been incorporated into the document	Respondent 05
71, 72	Disclosures	Disclosures	Disaggregation of revenue/expenditure disclosures. Neither ED71 nor ED72 include requirements on disaggregation of revenue/expenditure disclosures whereas ED70 does in paras 114-115. Given that ED70 only encompasses certain revenue streams, it seems illogical to me to only include these disclosures for part of an entity's revenue. I think that there should either be consistent disclosures to ED70 in both ED71 and ED72 or the disclosure requirements from ED70 should be removed. I am personally in favour of the ED70 requirements being included in ED71 and ED72 as they provide useful information to the reader.	See Disclosures Memo - Agenda Item 5.2.4 ED 72 – No Action. - The disclosure was included in the draft ED considered by the IPSASB at its September 2019 meeting, and the IPSASB agreed to remove the disclosure.	Respondent 02
71, 72	Disclosures	Disclosures	Movement in balances – ED70 paras 116-119 require specific disclosures of movement in revenue balances. I think there is value in having similar requirements in ED71 on the movement in balances on binding arrangements without performance obligations rather than simply the end balance. I also think that there is benefit in adding similar disclosure requirements into ED72 as these disclosures provide useful information to the reader of the financial statements	See Disclosures Memo - Agenda Item 5.2.4 ED 72 – No Action. - The disclosure was included in the draft ED considered by the IPSASB at its September 2019 meeting, and the IPSASB agreed to remove the disclosure.	Respondent 02
70, 71	General	Other	Do the EDs address revenue contracts that can potentially become onerous contracts?	See memo - Agenda Item 8.2.7	Respondent 12
71	1	Scope	The objective of ED 71should be consistent with ED 70 and ED 72 which both include a paragraph on how the objective is met (and ED 71 doesn't), to ensure the three EDs work as a package and are consistent to the extent appropriarte.	Agreed - paragraph 2 has been added to state how the objective of the [draft] standard is achieved	Respondent 06
71	2 to 5	Scope	It is critical that scope is easily understood by preperares so that they understand which standard to use for different types of revenue transactions. It was felt that the scope was not clear until the Application Guidance and Basis for Conclusions was also referred to – we suggest the ED be amended to ensure the scope is clear upfront.	Agreed - scope paragraph was added stating "The distinguishing factor between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation is this [draft] Standard, is whether a promise to deliver goods or services to the purchaser or a third-party beneficiary exists. A performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement."	Respondent 06

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	9	Definitions	The definition of the "transfer recipient" and "transfer provider" are key terms used in explaining the scope of both ED 71 and ED 72. Independent reviewers of the draft standard in New Zealand found the current definitions difficult to understand. The definitions as currently drafted. A transfer provider is an entity that provides a good, service or other asset to another entity without receiving any good, service or other asset in return. A transfer recipient is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity. We were also concerned that the definitions could untentionally scope out some transactions that are intended to be within the scope of ED 71. For example, an entity (being a Government) could argue that for tax revenue it is not a transfer recipient (as defined) and therefore all tax revenue is outside the scope of ED 71. This interpretation of the scope could be reached because the entity considers that rax revenue is collected and in return the Government provides goods or services to the community – the Government does not have a direct obligation to provide specific goods or services, but many would argue in substance the Government receives tax revenues for which it has an obligatuion to provide goods or services to citizens. This interpretation can be debated, but the point is the current definitions provide scope for different intrepretations and the risk of extended application discussions in practice which is unnecessary and provides no additional benefit. We suggest taking the definitions up a level and removing the complexity. A transfer provider is an entity that provides an outflow of resources to the transfer recipient. A transfer recipient is an entity that receives an inflow of resources from the transfer provider. The definiton of a "transfer provider" and "transfer recipient" in ED 71 and ED 72 are terms used only for the purpose of identfying which entity are we talking about – the entity receiving the resources or the entity providing the resources. There is no need for the definitions to get tied up discussing a requirement for a transfer of "goods, services, or other assets from another entity without providing any good, service, or other asset to that entity" within the definition of a "transfer recipient – this principle is addressed by the scope of the standard.	No action - Staff agree this is a valid point, within ED 71 the terms are only used for the purpose of identifying the party in the arrangement - however, no change was made. This is because the defintion of Transfer Provider was approved at September 2019 as part of the ED72 document - the defintion of Transfer Recipient was determined to be reciprocal - the definition of Transfer provided is derivied from the GFS definition of a transfer	Respondent 06
71	9	Definitions	We note that definitions are typically defined in the first IPSAS in which they are used, however these are exceptions to this standard setting rule. We suggest the following two definitions also be added to the definitions paragraph in the ED given their importance to applying the key principles of the standrad. Present obligation is a legally binding obligation or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. 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.	No action - revenue is defined in IPSAS 1 - present obligation is from the conceptual framework (concept is in paragraph 16)	Respondent 06
71	9	Definitions	It is important that the ED explains that a present obligation will only arise for a revenue transaction witout performance obligations when it has all the same conditions of a performance obligation as defined in ED 70, except that there is no requirement for the transfer of distict goods or services. A revenue transaction will only give rise to a present obligation when (1) enforceable and (2) te obligatuons for both the trabsfer receipient and transfer provider are sufficiently specific/distinct. This princple starts to come through clearer in the AGs but not in the core standard itself– given the importance of this prnciple we consider the ED drafting requires improvement.	No action - agreed a present obligation needs to be enforceable. However, the present obligation does not need to be distinct. That is more consistent with a performance obligation. Present obligations are expected to be less definied and therefore not distinct.	Respondent 06
71	9	Definitions	The Draft ED currently provides that for a revenue transactions without any peformance obligations to give rise to a present obligation it must be a transaction that meets the definition of either an "enforceable activity" or "eligible expenditure". We consider that this approch adds another layer of complexity that is not required or useful. Whether a revenue transaction gives rise to a present obligation should be based on weather the definition of a present obligation is satisfied, not weather the transaction is considered an "enforceable activity" or "eligible expenditure". In addition independent reviewers in New Zealand found the definitions of these two categories difficult to interpret and could not easily understand the difference between the two. Instead of using "eligible expenditure" and "enforceable activities" as another layer of criteria for determining whether you have present obligations, these terms could be used as a way of describing the types of present obligations that may arise for revenue transactions without performance obligations. We have provided drafting suggestions to give this effect. In addition we also have an issue with the reference to "enforceable" in "enforceable activities" and not "eligible expenditure", given for a present obligation to exist both the "enforceable activities" and "eligible expenditure" will need to be enforceble. We have therefore suggested that "enforceable activity" be changed to "agreed activity".	Agreed - new concept for the IPSASB to discuss at December 2019 - suggest developing an SMC to address your concern "Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 71), Revenue with Performance Obligations, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?"	Respondent 06
71	9	Definitions	The draft ED includes specific guidance on the circumstances in which the definiton of an asset and the recogniton criteria is meet for resource inflows arising from revenue transactions without performance obligations – it discusses the two key elements of the definition — the past event and the probable inflow of resources. However, the draft ED does not include the same level of guidance/discussion of when the definition of a liability and the recognition criteria is meet for resource outflows for revenue transactions with present obligations. This discussuon on the liablity side is critical, the ED should explain how conceptually the definition of a liability is meet for revenue transactions without performance obligations (but with present obligatons). This was a key area of deliberation during Board discussions, a number of respodents to the Revenue and Non-Exchange Expenses CP held the view that an entity can only have a liability from an inflow of resources when the inflow gives rise to an obligation to transfer control of distinct goods or services to the transfer provider or third party beneficiary (i.e. they held the view that a liability only arises from a revenue transaction when you have performance obligations as defined by IFRS 15.) Therefore is is important that the draft ED 71 provide a discussions on what is the past event and the probable outflow of resources to an external party that results in a liability being recognised for a revenue transaction without performance obligation. This principle/guidance in the core standard should be supported by the Basis for Conclusions.	Agree - guidance added on when a liability is recognized "1.An entity (transfer recipient) shall recognize for a liability that is within the scope of this [draft] Standard only when it has a present obligation as noted in paragraph 46. In evaluating whether a present obligation exists, an entity (transfer recipient considers whether they are required to perform an enforceable activity or incur an eligible expense. " - guidance added on when a past event occurs "46.52.Public sector entities obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. When the receipt of these assets results in the entity (transfer recipient) having to satisfy a present obligation, the entity recognized a liability. Therefore, the past event that gives rise to an unavoidable obligation is a taxable event or a transfer, when that event gives rise to a present obligation. Transactions or events expected to occur in the future do not in themselves give rise to present obligations."	Respondent 06
71	95	Capital transfers	We note that paragraph 95 of ED 71 provides that: Notwithstanding paragraph 103, if a capital transfer agreement does not specifically identify any enforceable activities or requirement to incur eligible expenditure, revenue shall be recognized on a systematic basis that best reflects the period of consumption of the capital transfer (e.g., over the period of construction). Our interpretation of this paragraph is that it is permitting an entity to defer the recognition of revenue arising from a capital transfer, when there are no present obligations. This provision is not conistent with the key principles throughout the standard – that is reveneue can only be deferred when there is a present obligation – this paragrapgh should be adjusted or removed.	Agreed - pargarph 95 was deleted. Capital transfers will at a minimum include one enforcable activity, construct the asset. The paragraph was removed to eliminate the confusion.	Respondent 06

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	78	Other	In the CP, taxation received in advance of the period in which it is intended to be used was noted as an issue with the application of IPSAS 23. The CP had an SMC on other issues in IPSAS 23 that the IPSASB should consider in an updated IPSAS 23. The NZASB identified modifying the taxable event to a taxable period where the tax is intended to cover a period rather than a point in time. For example, property rates are set before the beginning of the year (this is the taxable event under IPSAS 23) but the rates relate to services provided to ratepayers throughout the year rather than the point at which the rates are levied. Under IPSAS 23 the property rates are recognised at a point in time (when the rates are set) rather than over time. I couldn't see these issues being addressed in ED 71.		Respondent 06
71	General	Other	When is the licence, in substance, a tax or the delivery of goods or services? ED 70 has added some guidance and an example on non-IP licence. ED 71 deals with taxes so it would seem appropriate for ED 71 to have guidance on what is the substance of a licence.	No action - licences are adressed in ED70. It is a performance obligation	Respondent 06
71	Presentation	Disclosures	The disclosures in ED 71 includes no discussion on Presentation as provided for in ED 72. The CP disussed enhanced presentation options for revenue transactions without performance obligations, which was supported by respondents. The development of what an "enahanced presentation" approach has not been included in the draft ED.	See Disclosures Memo - Agenda Item 5.2.4	Respondent 06
71	Disclosure	Disclosures	The disclosures in ED 71 includes no discussion on applying significant judgement as provided for in ED 72.	See Disclosures Memo - Agenda Item 5.2.4	Respondent 06
72	105.00	Measurement	We understand that this applies only to cases where expense is recognised before the transfer provider has transferred the resource. The wording of this paragraph indicates that one should accrue expense e.g. at the signature of the contract, whereas ED 72 AG 91 suggest that that depends on the terms of the binding arrangement. So even if the arrangement foresees that the transfer provider has to transfer the resources at the achievemebt of certain milestones we would only accrue once the milestone has been completed. I thus think that the wording should also reflect this case.	No Action. - The paragraph deals solely with the measurement of variable consideration, not the recognition point. Recognition could be at contract signing, or at the acheivement of a milestone, if the consideration was still variable at that point.	Respondent 11
72	AG91	Scope	Third sentence: we suggest to delete "....or to the entity (the transfer provider)." Reason: we understand that transfers of goods or services back to the transfer provider are out of scope. It could lead to misunderstandings.	Agreed. - Text deleted.	Respondent 11
72	SMC 1	SMCs	SMC1 doesn't flow. It works as a complete sentence, but not in the way it has been split.	Agreed. - SMCs to be discussed with IPSASB	Respondent 06
72	SMC 3 / SMC 4	SMCs	SMC3 and SMC4 – I don't think they flow from the stub either.	Agreed. - SMCs to be discussed with IPSASB	Respondent 06
72	All SMCs	SMCs	Questions about the BCs should be separate questions or subpoints. People might agree with the requirements but not the BCs. Separating the question will make it easier to analyse responses.	Agreed. - SMCs to be discussed with IPSASB	Respondent 06
72	General	Editorial	I think transfer expenses without performance obligations should be dealt with first. •The requirements are shorter (about 30 vs 80 paras). •Given all the PSPOA requirements, transfer expenses without performance obligations are likely to be more prevalent. I'm a bit worried about the size of the document and the level of detail, although I understand how it has come about. Would it have been possible to rely on the detail in the revenue standard and focus on any differences?	No Action. IPSASB has agreed order of the document, which is intended to mirror the order of the revenue EDs.	Respondent 06
72	General	Editorial	An entity (the transfer provider) Some paras say "an entity (the transfer provider)" and others don't. Some say it for every mention. It isn't clear if there is a policy. Possible policies (in my order of preference) are: •Say upfront once that "an entity" means a transfer provider, unless the standard says otherwise •Add the bracketed explanation for the first use in each para •Add the bracketed explanation for every use	Agreed. - Review Group to consider replacing references to "an entity (the transfer provider)" with "the transfer provider" (suggestion from another review).	Respondent 06
72	General	Scope	I tried to think through a few examples to see if I could follow the scope. I think I got there, but it took a while. If I've got any of this wrong then I think there is a risk that other readers will get it wrong as well. I'm still not sure about the dividing line between individual services and transfer expenses. •Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole •A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return. What happens if a government pays another entity to deliver training courses: •If the training is for the government itself, then it would be a normal operating expense. Not in the scope of ED 72. It isn't a transfer expense. •If the government is paying for training to be delivered to others (and it isn't an individual service) then it would be a transfer expense. A number of the indicators for the PSPOA approach don't work in this situation. Most likely delivered over time. 35(a) works but 35(b) requires an assessment of the third-party beneficiary's control. If delivered at a point in time: 38(a) and 38(e) could work, but the others require assessments about the third-party beneficiary. What happens if the government provides training to another entity for nothing? •I'm tempted to say that this is an operational expense and outside the scope of ED 72 but I don't know if this is right or how you get there by applying ED 72. Some might be collective or individual services, but if they fail those definitions what happens? What happens in the following dental service examples? •If a government provides dental services directly to individuals via a government department – individual service and outside the scope of ED 72 [But I'm not sure about this. If the government has a contract with the government department could it fall within ED 72 or is it still individual services?] •If a government provides dental services through another entity – transfer expense (decide whether it qualifies for the PSPOA) If a government provides funding to a charity to meet its operational expenses or do something that doesn't involve a transfer to a third party beneficiary – transfer expense without a performance obligation as per para 89 Capital transfers (this one took me ages to figure out). I didn't get the answer until I read the memo: •They meet the definition of a transfer expense •If it doesn't qualify for the PSPOA, then the transfer provider recognises an expense at the earlier of the point at which it has a present	No Action. - Performance obligations are defined in ED 70.	Respondent 06
72	1.00	Objective	See suggested edits for consistency across all three EDs. Suggest bring para AG2 back into the body of the standard.	No Action. - IPSASB decision to include AG2 in application guidance not core text.	Respondent 06
72	2(h)	Scope	Income taxes – see comments on paras 101 and AG101 –AG108. It wasn't until I got to AG102 that I could understand what was in and out of scope of this ED.	See comments on paragraph 101 and amendments there.	Respondent 06

ED	Paragraph	Theme	Comment	Staff response	Respondent
72	7.00	Definitions	The following key definitions should be in this standard, even though they are used in other standards. There is a precedent for doing this (in IPSAS 34 to 38). •transfer provider •transfer recipient •eligible expenditure	No Action. - IPSASB decision to use cross references and avoid repetition, despite precedent.	Respondent 06
72	7.00	Definitions	Definition of a transfer expense – Scope issue: •A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return This definition does not seem to differentiate between: •the reporting entity incurring an expense when it provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return [out of scope of ED 72?]; vs •the reporting entity transferring a resource (a good, service, or other asset) to another entity (without receiving any good, service, or other asset in return) for the other entity to provide services for other third party beneficiaries [within scope of ED 72?] Does the definition of a transfer expense need to spell out the types of transactions that are caught by the definition eg A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return: •For the other entity to provide a good, service, or other asset to a third party beneficiary; or •For the other entity to undertake enforceable activities and/or incur eligible expenditure; or •Other transfers eg debt forgiveness etc ???	No Action. - The definition covers different types of transaction, which are then addressed as transfer expenses with or without performance obligations.	Respondent 06
72	9.00	PSPOA Assessment	Are the assessments possible? Para AG25 says that the standard has been developed taking into account the information that is expected to be available to a transfer provider but I wonder if all the assessments are possible/reasonable. The PSPOA requires that the transfer provider make assessments about control of resources by the transfer recipient or the third party beneficiary. I'm not sure that the transfer provider will have information to be able to make those assessments. In order to apply these requirements they might need to make assumptions or identify (in contracts) the trigger points for transfer of control. Para 49 says that, for the purpose of determining the transfer consideration, the transfer provider can assume that the transfer recipient will transfer the goods and services in accordance with the binding arrangement. Do we need more of these assumptions? See also comments on paras 28, 34, 38. Paras 32 and 38 of ED 72 takes assessment of control from the other party's perspective to the extreme in requiring the transfer provider to assess the third party gaining control rather than from the transfer provider's perspective as reporting entity of losing control of the asset/resource. Para 90's concept of loss of control is better:	No Action. Agree that the resource provider will need information from either the transfer recipient or the beneficiaries, but without this it is difficult to see how the binding arrangement will be enforceable. Memo to be developed.	Respondent 06
72	28.00	PSPOA Assessment	I think the assessments required by this para about the benefits or service potential to the third-party beneficiary could be onerous. Do we need some more assumptions like para 49?	See memo – Agenda Item 7.2.5	Respondent 06
72	34.00	PSPOA Assessment	Could an entity assume this until you it has evidence to the contrary?	See memo – Agenda Item 7.2.5	Respondent 06
72	38.00	PSPOA Assessment	Para says "To determine the point in time at which a third-party beneficiary obtains control of a promised asset and the transfer recipient satisfies a performance obligation…" Can the transfer provider make this assessment?	See memo – Agenda Item 7.2.5	Respondent 06
72	77(b)	PSPOA Assessment	A reviewer couldn't understand the residual approach in para 77(b)	No Action. - Wording mirrors ED 70.	Respondent 06
72	101.00	Scope	Initial thoughts Income taxes – I don't understand how this para works with para 2(h) which excludes income taxes. A number of IPSAS (eg IPSAS 4.59 and IPSAS 18.38) refer to the international standard dealing with income taxes. How will these two sets of requirements work together? Is the entity always immediately entitled to a refund? Why does 101 say "for the purpose of applying this Standard"? Is it a transfer expense or not? Thoughts after having read AG102 AG102 says that taxes paid and payable are transfer expenses and a transfer provider accounts for them as follows. •income taxes paid or payable in accordance with international or national standard. •Payroll taxes …. IPSAS 39 Employee Benefits •Other taxes paid or payable in accordance with AG103–AG108. I didn't get this message when I read para 101. See also comments about AG103	Agreed - Paragraph (new 99, old 101) amended to clarify that income taxes and payroll taxes are outside the scope of these requirements.	Respondent 06
72	119.00	Scope	Statutory payables – I'm confused about why this is in this standard if it isn't a transfer expense. See also BC66. I went round in circles trying to fit this together.	No Action. - See other comments on this paragraph – IPSASB decision to include here.	Respondent 06
72	General	Disclosures	Are the proposed disclosure requirements onerous? They might make sense for the transfer recipient but, if a public sector entity is buying goods and services though a number of other entities, they could lead to pages of disclosures.	No Action. - IPSASB has agreed disclosure levels; see also Disclosure memo	Respondent 06
72	General	Disclosures	Should there be disclosure requirements about significant judgements in deciding which standard to use for transactions? ie in deciding whether something is a transfer expense or not?	No Action. - Question for Disclosure memo	Respondent 06
72	AG103-AG108	Taxes/Levies	This para talks about the generation of revenue as an example – might be a bit confusing to constituents given that income taxes are outside the scope of the standard. AG107 also talks about revenue generation. Maybe this is consistent with the wording in IFRIC 21 Levies. Is the statement in AG108 intended to apply only to those taxes within the scope of the standard or to all prepaid taxes?	Action. Wording is consistent with IFRIC 21, Levies, which discusses revenue generation. AG wording follows IFRIC 21, Examples have been amended so most examples discuss other forms of taxation, e.g., property taxes. No changes to this wording. Reference to prepaid tax giving rise to an asset has been updated to refer to taxes within the scope of the ED – other taxes would follow other Standards.	Respondent 06
72	IG	Other	No comments – but due to time constraints I only skimmed this section.	No Action	Respondent 06
72	BCs	BC	Editorial suggestions in the ED	Action - Some editorial changes made.	Respondent 06

ED	Paragraph	Theme	Comment	Staff response	Respondent
72	Amendments to Other IPSAS	Amendments to Other IPSAS	Some comments in the ED	Action - Some editorial changes made. IPSAS 24 amendments to be raised with the IPSASB.	Respondent 06
71, 72	ED72, Par. 97ED71, par. 36	Appropriation	I question how the second sentence is worded. It ties the assessment of the substance to whether the provider "is prohibited from transferring" the resources until the appropriation is approved. When annual appropriations are at play, a transferer will always be prohibited by law to transfer funds until appropriations are approved. The nuance here is that while a contractual clause creates a prohibition from a legal perspective to transfer funds, there may be other curcumstances and past practices that indicate the substance is different. The point being that, while the legal or contractual prohibition exists, it is whether from an accounting perpsective, it is the proper basis for recognition of a liability/expense (for transferor in ED72) or asset/revenue (for recipient in ED71). One way to address this may be to re-word the second sentence in para 36 of ED71 and para 97 of ED72 as follows: ED71, para 36 – When a binding arrangement specifies that the resources to be transferred to the entity (transfer recipient) by a transfer provider are subject to the approval of the a future appropriation being approved, the entity (transfer recipient) must consider substance over form. While The a limitation (that the resources to be transferred are subject to the approval of the a future appropriationbeing approved) may exist, has substance if there may be sufficient evidence to support that the entity (transfer provider recipient) has gained control over is prohibited from the transferreding the resources until the appropriation is approved. ED72, para 97 – Where When a binding arrangement specifies that the resources to be transferred to a transfer recipient by an entity (the transfer provider) are subject to the approval of future appropriation being approved, the entity (the transfer provider) must considers substance over form. While a The limitation (that the resources to be transferred are subject to the approval of a future appropriation being approved) may exist, has substance if the entity (the transfer provider) is prohibited from may in substance have lost discretion to avoid the transferring the of resources until the appropriation is approved.	Agree -To be considered as part of the Editorial Process with respondent	Respondent 08
71	AG29 to AG32	Appropriation	Consistent with comments above, I suggest we re-work this section. It is not about whether a provider is prohibited or not to transfer funds. With annual appropriations needing legislative approval, a government is always prohibited to transfer funds until legislative approval is received. It is whether despite the legal prohibition to wait for annual appropriations which always exist, the government has obtained the enabling authority to implement a multi-year program and has exercised that authority through signature of an agreement with a third party recipient. For accounting purpose, this nuance must be considered and assessed. If you agree in principle, I can offer assistance to re-work. I first would like to know if you agree.	Agree -To be considered as part of the Editorial Process with respondent	Respondent 08
72	AG96 to AG100	Appropriation	Same comment as above for AG29 to AG32 … I suggest that we re-work these AGs. If you agree in principle, I can offer assistance to re-work. I first would like to know if you agree.	Agree -To be considered as part of the Editorial Process with respondent	Respondent 08
71, 72	ED72, Par. 97ED71, par. 36	Appropriation	Editorial suggestions – I suggest as shown above in the proposed revised text, that we add the word "future" in front of "appropriations" in the first and second sentences to make it clear that we are talking about a future event. I also made other editorial suggestions above to bring consistency between the two paragraphs.	Agree -To be considered as part of the Editorial Process with respondent	Respondent 08
71	36.00	Appropriation	Illustrative example – there is no specific example to address the appropriation matter. The closest is example 23, which deals with the substance of a transaction being different from its form. But the appropriation scenario is unique and may warrant its own example as is the case in ED72. I suggest we create a new example that is the mirror of example 35 in ED72, as modified for my comments below.	Agree -To be considered as part of the Editorial Process with respondent	Respondent 08
72	Illustrative Example 35	Appropriation	I question whether this scenario is effective at illustrating the challenges seen in practice. Appropriations are commonly approved annually as part of a government's annual budgetary cycle. The challenges seen in practice are when a parliament or legislature approves an enabling legislation to allow a government to implement a multi-year program. A good example would be a program aimed at supporting the development of infrastructure in a country – say for $500M over a 10 year period. A first legislation would be passed to enable the government to create the program and enter into infrastructure grant agreements with qualifiying recipients. Say the government enters into an individual grant agreement with a recipient for $10M to construct new local infrastructure over a 5-year period. That agreement has a clause stating that the $10M will be awarded in 5 annual instalments of $2M over a 5-year period. The agreement includes a clause stating that annual instalments of $2M are subject to the approval of future annual appropriations. The recipient then uses this commitment from the government to execute the infrastructure project, on the expectation that the future annual instalments of $2M will be received. In this case, the cause was added to the agreement to acknowledge Parliament's authority to approve annual appropriations. However the same Parliament has already provided authority to the government to proceed with a multi-year program to improve infrastructure for a total cost of $10M. in this case, because Parliament has provided authority to the government to enable the program and that such authority has been exercised by the government through the signature of an agreement with the recipient, the clause "subject to future appropriation" may not have substance for accounting purposes because the government has lost discretion to proceed with the $10M grant over a 5-year period through entering into a contractual agreement with the recipient. IE185. This paragraph starts with the entering into an agreement with a recipient. But in practice, this is typically step 2 (the execution of the authority received from legislation). Step 1 in a typical scenario is that legislation is first approved to enable the government to design and implement a new multi-year program to reduce air pollution for a total cost of $XX over X years. For the scenario to be effective, it should first articulate the existance of an enabling legislation for a program, then bring in the execution the enabling legislation through signature of an agreement with a recipient. IE187. I believe here we are confusing "incurring" of an expenditure, which is an accounting concept, with "payment or transfer of funds" to a third party, which is what annual appropriations relate to. in jurisdictions where annual spending must be approved through annual appropriations, the government cannot make payments before the appropriations are approved. Transferring funds prior to an appropriation being approved would be unlawful. Annual appropriations relate to payment authorization, which is different from the incurrance of an expense for accounting purposes. So the conclusion is not whether the government is prohibited from transferring funds, it	Agree -To be considered as part of the Editorial Process with respondent	Respondent 08
71	4, AG7 & AG8	Scope	ED 71 is intended to be a catch-all standard for revenue that does not fall under ED 70 (or other sections specified in paragraph 2). However, paragraph 4 may exclude revenue transactions that are intended to be in scope. For example, if performance obligations under a binding arrangement are not distinct, the transaction should be accounted for under ED 71 (per ED 70.AG 35); such transactions would still involve the transfer of goods or services to the purchaser or third party beneficiary. Therefore, recommend deleting paragraph 4 as it does not clarify the scope of ED 71. Paragraphs AG 7-8 could be retained if first 2 sentences of AG 7 are deleted.	Actioned -Scoping paragraphs have been updataed to reflect the interaction between the EDs	Respondent 01
71	48.00	Present Obligation	What is the basis for revenue recognition in relation to activities to be completed? Is it only when the activities have been completed, or as the activities are being undertaken? Or does it depend on circumstances?	Agreed -SMC 3 developed "Do you agree sufficient guidnace exists in ED 71 to determine when a present oblgiation is sastisfied? If no why not?	Respondent 04

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	18 and 21	Editorial	The drafting appeasr to require specific identification of the resources covered by a transfer and their use in undertaking the enforceable activity or eligible expenditure. Such specific identification is either onerous or impossible. Redraft to refer to equivalent amount of resources?	Agree -Staff to consider during the editorial process	Respondent 04
71	General	Structure	#1 Structure of ED The proposals in ED 71 include a significant changes in approach from IPSAS 23 and introduces new principles and thinking on revenue recognition for transactions without performance obligations – therefore we feel the ED has moved past a "update" of IPSAS 23 and as a result the structure of the ED should be amended accordingly to allow new principles and requirements to be set out in a manner that will allow for the user of the Standard to follow it through in an orderly fashion. Given the extent of changes to IPSAS 23, the approach of keeping the ED structure consistent with IPSAS 23 does not work. The ED is a residual revenue standard and proposes two different recognition approaches: •transactions from binding arrangements (i.e. has present obligations) – recognise revenue as present obligations are satisfied; and •transactions from non-binding arrangements (i.e. no present obligations) – recognise revenue immediately when the transfer recipient takes control of the resources (i.e. when the definition of an asset is meet). The structure of the ED should be built around these two approaches and discuss each approach separately. Independent reviewers in New Zealand who have not been following the project closely noted the structure in ED 71 was "quite hard to follow and jumped around talking about different categorioes of revenue transactions in different sections". We feel that the flowchart in the ED provides a useful basis for developing the structure of the ED, and where possible and appropriate the structure should be consistent with ED 70 and 72 given the three EDs will be issued as a package.	Actioned · Staff has reflected the proposal in the December Board version. See structuring memo 8.2.3	Responed 06

Agenda Item 5.3.2

November 6—In-Period Review Package

For informational purposes only and the Staff response Package

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In Period Review Instructions

Revenue and Transfer Expense

Comment Deadline: November 18, 2019

Submit Comments to: Dave Warren (DaveWarren@ipsasb.org)

Due to the amount of material, and limited time for review, please consider the following

REVIEW INSTRUCTIONS FOR ED 70, ED 71 and ED 72



Key Decision Memos

1 Scoping Memo

- Summarizes key difference between ED 70 and ED 71
- Includes the following appendices
  - o Table of concordance (IPSAS 23 / ED 71)
  - o Table of concordance (ED 70 / ED 72 / IFRS 15)
  - o Definitions and terminology comparison
  - o Disclosures comparison
  - o Illustrative examples comparison

Go to Scoping memo

2 Measurement of Revenue Memo

- Considers the measurement requirements across ED 70 and ED 71
- Recommends initial and subsequent measurement requirements in ED 71
- Recommends disclosure requirements in ED 71 to enhance accountability

Go to Measurement memo



Exposure Drafts

3 ED 70 – Revenue with Performance Obligations

- Authoritative Text was provisionally approved in June 2019
  - o Provisionally approved text is shaded grey

Go to ED 70

4 ED 71 – Revenue without Performance Obligations

- IPSAS 23 was agreed to be the basis of ED 71
  - o Text is shaded grey with changes tracked from IPSAS 23
- Text reviewed by the IPSASB in September 2019 is shaded orange

Go to ED 71

5 ED 72 – Transfer Expenses

- Text reviewed by the IPSASB in September 2019 is shaded orange
  - o Changes are tracked from September 2019 meeting

Go to ED 72

6 Editorials / Comments

- Editorials should be made directly in the Exposure Drafts using track changes
- Substantive comments should be submitted in the Comment Template
  - o *Substantive comments are of fatal flaws that may result in the member not supporting the ED(s)*
  - o *Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).*

Go to Comment Template

IPSASB Instructions (For Informational Purposes)

- Staff has actioned the IPSASB instructions from the September 2019 meeting

Go to IPSASB Instructions

IPSASB Instructions from September 2019

ED 70, *Revenue with Performance Obligations*

Meeting	Comment/Board Instruction	How dealt with
Sept 2019	The IPSASB **instructed** staff to remove the proposed footnote on the definition of Fair Value in the exposure draft	Removed

ED 71, *Revenue without Performance Obligations*

Meeting	Comment/Board Instruction	How dealt with
Sept 2019	Ensure text agreed in Sept 2018 re compulsory contributions is included	Included the consequential text from IPSAS 42, *Social Benefits* - this has been approved so is not shown as marked up. Also include the text from the Sept 2018 Board papers – this text has not been approved so is shown in mark up.
Sept 2019	Develop a staff paper which discusses the overall approach to revenue and expenses and the linkages between EDs 70, 71 and 72. This includes reviewing: • The scope of all 3 ED's to ensure no 'gaps'; • Consistency of the definitions used; • Consistency of the use of terminology used; • Consistency of disclosures (as required); and • Consistency of illustrative examples (as required). • This is to be completed in advance of the December meeting.	See scoping memo
Sept 2019	Ensure that the additional guidance in paragraph 30 regarding hybrid transactions is consistent with the guidance in ED 70	Consistent paragraphs AG70 and AG71 of [draft] IPSAS [X] (ED 70, *Revenue with Performance Obligations*)
Sept 2019	Review paragraphs 34-35 (Recognition of revenue from transactions without performance obligations)	Have reviewed and altered all references to 'condition'

Sept 2019	Review the text in paragraph 36 regarding 'revenue is recognized as the research is conducted and certain milestones are achieved' - reconsider the use of 'milestone'	The example and hence reference to milestones has been replace with an explanation of how revenue would be recognized if there was either an enforceable activity or a requirement to incur eligible expenditure.
Sept 2019	Review the comment at the end of paragraph 53 regarding whether that paragraph needs to be amended for enforceable activities and eligible expenditure	Paragraph has been revised to refer to enforceable activities and eligible expenditure instead of conditions.
Sept 2019	Revise paragraphs 3(b) and 66 (re types of transfers) to ensure consistency of wording (e.g. use of such words as 'certain')	'Certain' has been removed from paragraph 3(b) for consistency.
Sept 2019	Consider the diagram presented June 2019 regarding the transfers in each ED	Addresses by Memo – Overview. The staff confirm that all revenue transactions have been addressed in the [draft] Exposure Drafts.
Sept 2019	Review paragraph 71 regarding the use of the term 'transfer agreement'	The paragraph has been deleted and term 'transfer agreement' is not used in the [draft] ED
Sept 2019	Map disclosures across EDs 70 and 71 considering their consistency	See scoping memo
Sept 2019	The relevant basis for conclusion paragraphs should be brought over from IPSAS 23	The following BC paragraphs from IPSAS 23 have been retained and amended as necessary: • BC4 – Background; • BC7 – Approach; • BC9 – Monetary and Non-monetary Assets; • BC14 – Transactions with Exchange and Non-Exchange Components • BC15 – Contributions from Owners; • BC16 – Measurement of Assets; • BC17 – Entity Bank Accounts; • BC18 – Measurement of Liabilities;

		• BC19 – Taxable Event; • BC20 – Advance Receipts; • BC21-BC22 – Expenses Paid Through the Tax System and Tax Expenditures; • BC23-BC24 – The Tax Gap; • BC25 – Services in-kind; and BC26 – Compulsory Contributions to Social Security Schemes.
Sept 2019	Consider the appropriateness of the presentation requirements in IPSAS 1 (exchange / non-exchange)	See consequential amendments to [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. And [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations.*
Sept 2019	A table of concordance identifying all text brought over from IPSAS 23 (both authoritative and non-authoritative), and identifying new text should be prepared and included in the ED	See scoping memo
Sept 2019	• The material in paragraphs 25-29, is to be condensed to be in line with ED 70	Text on ED 70 Performance Obligations is now in the AG's – two paragraphs, the first one with the definition of a performance obligation and the second notes the key difference between a performance obligation and a present obligation.
Sept 2019	• Where revenue recognition patterns are similar to those in ED 70 ensure the rationale for the pattern of recognition is the similar.	Whilst ED 71 requires revenue from binding arrangement that have either an enforceable action or a requirement to incur eligible expenditure may have similar patterns of revenue recognition – ED 71 does not use a five-step approach that is in ED 70. However, that said, the rationale for deferring revenue recognition is the same – there must be a binding arrangement (which by definition is

		enforceable) which creates rights and obligations on both parties to the agreement. These obligation (either a performance obligations (ED 70) or a present obligation (ED 71) creates a liability by when revenue recognition can be deferred until the liability is extinguished via the fulfillment of the obligation.
Sept 2019	• Review all IPSAS for consequential amendments	See "consequential amendments" section of each ED.
Sept 2019	• Review paragraph 18 (Control of an asset) and revise in light of a performance obligation	Paragraph 18 (now 35) has been updated for the terminology in ED 71.
Outflow of Resources		
Sept 2019	Consider the discussion about 'through who's eyes is there a breach of an agreement' and the consequences of a breach subsequent to the 'completion' of the binding arrangement.	Accounting for a breach of agreement is not addressed in ED 71, as this would be an expense. Staff are developing for a paper for discussion at the December 2019 meeting.
Sept 2019	Include a discussion on binding arrangements that may lead to an onerous contract.	Staff are developing for a paper for discussion at the December 2019 meeting.
Capital Grants		
Sept 2019	Use the term transfer not grant.	The term 'capital transfer' now replaces 'capital grant'.
Sept 2019	Include in the Basis for Conclusions the difference between the accounting in ED 71 and IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance.*	Included as paragraphs BC20-BC22.
Sept 2019	Include examples, including when the asset is to be used for a particular purpose subsequent to its acquisition/construction.	Paragraphs AG47-AG48 provide guidance.
Sept 2019	Include a Specific Matter for Comment (SMC) communicating the difference between the approach in IAS 20 and the approach proposed in ED 71 (note other SMCs will be included where required).	Included as SMC 1.

Sept 2019	Articulate clearly why these transactions are not in ED 70.	Paragraph AG10 (definition of Capital transfer) states: "A capital transfer does not impose a performance obligation (as defined by [draft] IPSAS [X] (ED 70) on the transfer recipient because there is no requirement to transfer the procured non-financial asset to either the transfer provider or a third-party beneficiary and therefore it fails to meet the requirements of a performance obligation."
Initial Measurement of Non-Contractual Receivables		
Sept 2019	Bring back to the Board further analysis that considers discounting.	See measurement memo
	Develop a diagram which considers the relationships between: o Nominal tax collected; o Tax expenditures (allowances); o Legally collectable taxes; What to show on the face of the financial statements and what to include in the notes.	See Appendix F of measurement memo
	Develop a paper illustrating the linkages with IPSAS 41.	See see Appendix A and B of measurement memo

ED 72, *Transfer Expenses*

Meeting	Comment/Board Instruction	How dealt with
Objective, Scope and Definitions		
Sept 2019	Review the scope exclusions in the draft ED to ensure all relevant transactions, for example leases, are excluded.	The list of scope exclusions has been expanded to include leases, employee benefits (including payroll taxes), insurance contracts and share-based payments.

Sept 2019	Review the drafting of the definitions of transfer expense, transfer provider and transfer recipient with a view to improving the clarity of the definitions.	The words "in return" have been added to the end of the definition of transfer expense. Definitions of transfer provider and transfer recipient have been deleted (these are now included in ED 71) and a cross reference to the definitions found in ED 71 included. See paragraph 7.
Sept 2019	Include guidance to clarify that agent/principal arrangements and arrangements where the transfer provider gains control of the transfer recipient's output are outside the scope of ED 72.	An additional paragraph (AG8) has been added to explain that agent/principal arrangements and arrangements where the transfer provider gains control of the transfer recipient's output are outside the scope of ED 72.
Recognition and Measurement - Public Sector Performance Obligation Approach		
Sept 2019	Amend the references to a third-party beneficiary gaining control of a good or service to include the transfer recipient losing control of the good or service	An additional sentence has been added to paragraph 32 stating that a transfer provider may assess when a transfer takes place by reference to the transfer recipient losing control rather than the third-party beneficiary gaining control where the transfer provider has more reliable information to make this assessment.
Recognition and Measurement - Transfer Expenses without Performance Obligations		
Sept 2019	Review the terminology and revise to enhance clarity and the links with ED 71.	Terminology has been amended to refer to enforceable activities and eligible expenditure to match ED 71; these terms were agreed at the September 2019 meeting.
Sept 2019	Develop additional guidance on when control of a transferred asset is lost.	Paragraph AG94 has been added to provide additional guidance on when a transfer provider loses control of the transferred resources.

Sept 2019	Develop additional guidance linking transfer expense without performance obligations to enforceable obligations in ED 71.	Paragraph AG89 has been added to explain that the recognition and measurement requirements for transfer expenses without performance obligations are based on the *Conceptual Framework*, and to explain the link with ED 71.
Sept 2019	Include a sub-heading before the debt forgiveness paragraph, and include a cross-reference to IPSAS 41.	Sub-heading and cross-reference added (paragraph 94)
Sept 2019	Delete the word "separately" in paragraph 96 (series of transfers).	Word deleted (paragraph 96)
Sept 2019	Align the treatment of transfers subject to appropriations with the accounting being developed in ED 71.	Paragraphs 97 and AG97-AG98 have been added to provide more explanation regarding appropriations. These are aligned with ED 71.
Presentation		
Sept 2019	Review the disclosures in the light of the developments in ED 70 and ED 71.	Disclosures were compared across all EDs. See "Scoping Memo".
Sept 2019	Develop a cross-reference to link transfer expenses subject to appropriations with the contingent liability guidance in IPSAS 19.	Paragraph 141 added to require consideration of a contingent liability disclosure in respect of transfer expenses subject to appropriations that have not been recognized as a liability or expense.

Comment Template

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

ED / Paragraph	**Comment**	**Staff response**
	Objective, Scope and Definitions	
[*Please reference ED and paragraph*]	[*Please fully describe in your comment, the issue you have identified, why you believe it is a substantive point and provide a suggestion on how it might be addressed (if possible).]*	[To be completed by IPSASB staff]

Overview of the Relationship between Exposure Draft 70, *Revenue with Performance Obligations*, Exposure Draft 71, *Revenue without Performance Obligations*, and Exposure Draft 72, *Transfer Expenses*

Objective

1. The IPSASB instructed Staff to summarize the key aspects of ED 70—ED 72, to ensure consistency across the suite of EDs, where relevant.

2. The following analysis was performed to support the IPSASB's review of ED 70—ED 72:

   (a) **Scope.** The scope of ED 70 and ED 71 was developed in plain English to explain the differences to constituents, and to ensure that no revenue transactions were unintentionally outside the scope of the EDs (this memo);

   The IPSASB noted the importance of clarifying the scope of the revenue EDs. Since ED 72 addresses transfer expenses, its scope is not an issue. Consequently ED 72 is excluded from the scoping analysis on revenue.

   (b) **Definitions and Terminology.** Comparison of the definitions and terminology across the EDs (Appendix A);

   (c) **Disclosures.** Comparison of the disclosures across the three EDs(Appendix B);

   (d) **Illustrative Examples.** Comparison of the illustrative examples across all Eds (Appendix C);

   (e) **Paragraphs.** Table of concordance comparing paragraphs across ED 70, ED 72 and IFRS 15 (Appendix D); and

   (f) **Paragraphs.** Table of concordance comparing paragraphs across ED 71 and IPSAS 23 (Appendix E).

Overall Approach

3. Based on the Consultation Paper (CP) feedback, the IPSASB decided to develop revenue guidance in two standards:

   (a) ED 70, *Revenue with Performance Obligations*

      (i) Applies to revenue transactions with performance obligations[1] (as defined in ED 70); and

      (ii) Guidance primarily drawn from IFRS 15, *Revenue Transactions with Customers,* however, adapted for the public sector.

   (b) ED 71, *Revenue without Performance Obligations*

[1] ED 70, paragraph 7, defines a performance obligation as *a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:*
(a) A good or service (or a bundle of goods or services) that is distinct; or
(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.

(i) Applies to revenue transactions which do not have performance obligations (as defined in ED 70); and

(ii) Guidance primarily drawn from IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).*

4. All revenue transactions are addressed in either ED 70 or ED 71. The criterion that distinguishes whether a revenue transaction is in scope of either ED 70 or ED 71 is whether the transaction includes a performance obligation:

(a) ED 70 applies to revenue transactions with performance obligations; and

(b) ED 71 applies to all other revenue transactions (including revenue transactions without performance obligations).[2]

Scope

5. The scopes of ED 70 and ED 71 are as follows:

	ED 70	ED 71
Scope	Revenue transactions with performance obligations	Revenue transactions without performance obligations
Plain Language	Good or service associated with the transaction is controlled by the purchaser (Benefit goes outside the reporting entity)	Good or service associated with the transaction is controlled by the recipient (Recipient determines and has control of the benefit because the benefit stays inside the reporting entity)
Example	The World Bank pays CU500,000 to Country A to train World Bank staff on the accounting practices of Country A (World Bank directs the service). – or – The World Bank pays CU500,000 to Country A to train Country B's staff on the accounting practices of Country A (World Bank directs the service).	The World Bank pays CU500,000 to Country A to provide training services. Country A trains its staff on the accounting practices of Country A (Country A directs the service). – or – The World Bank pays CU500,000 to Country A to provide training services. In a separate transaction, Country A trains Country B's staff on the accounting practices of Country A (Country A directs the service)

Relationship between the Scope of ED 70 and ED 71

6. The key determining factor in whether a revenue transaction falls within the scope of ED 70 or ED 71 is whether the arrangement contains a performance obligation which is a promise to transfer goods or services to a purchaser or third-party beneficiary.

[2] Where revenue transactions are outside the scope of ED 70 and ED 71, because another IPSAS applies, they are still addressed in ED 70 or ED 71 as scoping paragraphs direct users to the appropriate guidance.

(a) For a revenue transaction within the scope of ED 70:

(i) The party receiving consideration must be obligated to transfer goods or services to the purchaser or third-party beneficiary.

(b) For a revenue transaction within the scope of ED 71:

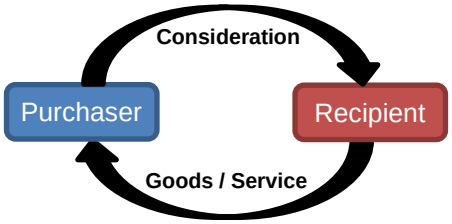
(i) The party receiving consideration has NO obligation to transfer goods or services to the purchaser. This includes:

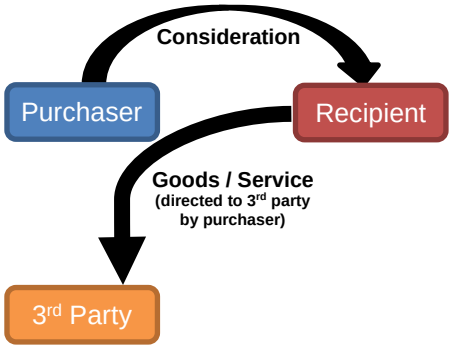
a. Revenue transactions that are unenforceable (do not include a binding arrangement), such as taxes and fines;

b. Revenue transactions where the purchaser transfers resources and the benefits are consumed by the recipient in accordance with the binding arrangement (enforceable activities and eligible expenditures).

ED 70

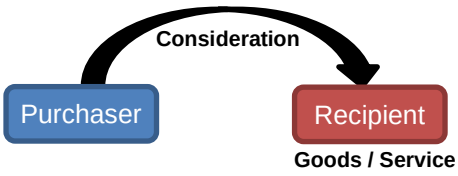
Goods and services are controlled by the purchaser





ED 71

Goods and services are controlled by the recipient



Recommendation

7. Based on the existing scoping requirements in ED 70 and ED 71, see Appendix E, Staff recommend developing additional scoping guidance to support constituents in applying the standards. Furthermore, the plain language analysis performed above should be used as a basis for the communication documents prepared for constituents.

8. Paragraphs 4, AG5 and AG6 have been included in ED 71:

> *4. Revenue transactions without performance obligations are transactions where control of the good or service is maintained by the entity (transfer recipient). The entity (transfer recipient) determines how the good or service will be used and whether the good or service will remain within the entity (transfer recipient) or be used outside the entity. For example, when an entity (transfer recipient) receives cash or another asset, the entity has no obligation to return a good or service in return for that transfer.*
>
> *AG5. In practice, an entity (transfer recipient) will consider whether it maintains control of the resources provided by the transfer provider. If the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are transferred to the transfer provider, or to a third-party beneficiary, the transaction is accounted based on the requirements of [draft] IPSAS [X] (ED 70). Where there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary or the entity (transfer recipient) directs the use of the economic benefit of the good or service then the requirements of this [draft] Standard apply.*
>
> *AG6. For example, where an entity (transfer recipient) receives cash or another asset from an international financial institution (transfer provider) to provide training services on the entity's own accounting practices, the arrangement is accounted for within the scope of this [draft] Standard when the entity (transfer recipient) is able to determine who will receive the training services. Often arrangements of this nature that will be within the scope of the [draft] Standard will be where the training services are provided internally to the entity (transfer recipient). This is because the entity (transfer recipient) receives the benefit of the good or service. If the international financial institution requires the training services be delivered to the staff of the international financial institution, the arrangement would be within the scope of [draft] IPSAS [X] ED 70 as the benefit from the good or service is transferred to the transfer provider.*

Decision required

9. Does the IPSASB agree with Staff's recommendation?

Appendix A – Definitions

Purpose

1. Compare the definitions and terminology across ED 70, ED 71 and ED 72.

Background

2. When terms are defined throughout IPSAS, they are defined in the first standard in which they are used. Subsequent standards refer to the definition in earlier standards as necessary. This process was continued in ED 70, 71 and 72.

Analysis

3. Staff reviewed the definitions across ED 70, ED 71 and ED 72. Staff concluded the IPSASB policy noted in paragraph 2 was applied consistently across the three exposure drafts:

Definitions from ED 70	ED 71	ED 72
Binding arrangement	Same meaning as ED 70; incorporated by reference in ED 71.6	Same meaning as ED 70; incorporated by reference in ED 72.7
Binding arrangement asset	Not used in ED 71	Mirrored by “Transfer provider’s binding arrangement liability”. See ED 72 section below
Binding arrangement liability	Not used in ED 71	Mirrored by “Transfer provider’s binding arrangement asset”. See ED 72 section below
Contract	Same meaning as ED 70; incorporated by reference in ED 71.6	Same meaning as ED 70; incorporated by reference in ED 72.7
Control of an asset	Same meaning as ED 70; incorporated by reference in ED 71.6	Same meaning as ED 70; incorporated by reference in ED 72.7
Customer	Not used in ED 71	Not used in ED 72
Performance obligation	Same meaning as ED 70; incorporated by reference in ED 71.6	Same meaning as ED 70; incorporated by reference in ED 72.7
Purchaser	Not used in ED 71	Not used in ED 72
Revenue	Not used in ED 71	Not used in ED 72
Stand-alone price	Not used in ED 71	Mirrored by “Stand-alone purchase price”. See ED 72 section below.

Third-party beneficiary	Same meaning as ED 70; incorporated by reference in ED 71.6	Same meaning as ED 70; incorporated by reference in ED 72.7
Transaction price	Not used in ED 71	Mirrored by “Transaction consideration”. See ED 72 below.
Definitions from ED 71	**ED 70**	**ED 72**
Capital transfer	Not used in ED 70	Not used in ED 72
Eligible expenditure	Not used in ED 70	Same meaning as ED 71; incorporated by reference in ED 72.7
Enforceable activity	Not used in ED 70	Same meaning as ED 71; incorporated by reference in ED 72.7
Expenses paid through the tax system	Not used in ED 70	Not used in ED 72
Fines	Not used in ED 70	Same meaning as ED 71; incorporated by reference in ED 72.7
Other compulsory contributions and levies	Not used in ED 70	Not used in ED 72
Tax expenditures	Not used in ED 70	Not used in ED 72
Taxable event	Not used in ED 70	Not defined but discussed in ED 72.BC64
Taxes	Not used in ED 70	Same meaning as ED 71; incorporated by reference in ED 72.7
Transfer	“Transfer” in a generic sense is used in the context of the movement of goods or services from the entity to the purchaser or third-party beneficiary.	Not used on its own in ED 72
Transfer provider	Not used in ED 70	Same meaning as ED 71; incorporated by reference in ED 72.7
Transfer recipient	Not used in ED 70	Same meaning as ED 71; incorporated by reference in ED 72.7

Definitions from ED 72	ED 70	ED 71
Stand-alone purchase price	Mirror of “Stand-alone price” from ED 70	Not used in ED 71
Transaction consideration	Mirror of “Transaction price” from ED 70	Not used in ED 71
Transfer expense	Not used in ED 70	Not used in ED 71
Transfer provider’s binding arrangement asset	Mirror of “Binding arrangement liability” from ED 70, from the perspective of a transfer provider	Not used in ED 71
Transfer provider’s binding arrangement liability	Mirror of “Binding arrangement asset” from ED 70, from the perspective of a transfer provider	Not used in ED 71

Recommendation

4. No changes required to ED 70, ED 71 or ED 72 as a result of Staff’s analysis.

Appendix B – Disclosures

Purpose

1. Compare the disclosures across ED 70, ED 71 and ED 72.

Detail

2. Staff reviewed the disclosures across ED 70, ED 71 and ED 72 and noted they were consistently applied across all three exposure drafts:

Requirements in ED 70	Requirements in ED 71	Requirements in ED 72
Requirements from ED 70:		
Objective of disclosures (109)	Required to provide information that: 1) is useful for decision making, 2) demonstrates accountability of the transfer recipient, and 3) helps users make informed judgments about revenue streams. (94 and 95)	Similar requirements as ED 70 (125)
Consideration of the level of detail required, materiality and aggregation (110 to 112)	No specific considerations in ED 71.	Similar requirements as ED 70 (126 to 128)
Revenue recognized from binding arrangements (113(a))	Disclosure of amount of revenue from (i) taxes, (ii) other compulsory contributions and levies, and (iii) transfers, each showing separately major classes of transactions within these categories. (91(a))	Expense recognized from: (a) binding arrangements with performance obligations, (b) binding arrangements without performance obligations, and (c) binding arrangements without performance obligations. (129)
Impairment losses recognized on revenue-related receivables or binding arrangement assets (113(b))	No explicit requirements on impairment losses in ED 71.	Impairment of transfer provider's binding arrangement assets (130)
Disaggregation considerations (114 to 115)	Disaggregation is implicitly incorporated into the requirements in paragraph 91(a), as noted above.	Disaggregation is implicitly incorporated into the requirements in paragraph 129, as noted above.

Movement in binding arrangement balances with details such as decreases in opening balances due to the satisfaction of performance obligations (i.e., a rollforward) (116)	Only the ending balances of: (i) receivables from revenue without performance obligations, (ii) liabilities arising from enforceable actions or eligible expenditures, (iii) liabilities from concessionary loans, and (iv) advance receipts are required to be disclosed by 91(b) to (e). 91(f) requires the disclosure of the amount of liabilities forgiven in the period.	See ED 72.139 below; however, this is only required for transfer expenses without performance obligations
Explanation of how satisfaction of performance obligations relates to the recognition of revenue (117)	Accounting policies adopted for the recognition of revenue, including how revenue is recognized as enforceable actions are performed or eligible expenditures are incurred. (92(a))	See ED 72.129 above.
Explanation of significant changes in binding arrangement balances (118)	See information required by paragraph 91 above. Only certain period-end balances and the amount of liabilities forgiven in a period are required to be disclosed in ED 71.	See ED 72.139 below; however, this is only required for transfer expenses without performance obligations
Information regarding performance obligations such as when they are typically satisfied, significant payment terms, etc. (119)	Similar information required through disclosures of: 1) qualitative information on nature and type of major classes of bequests, gifts and donations, showing goods in-kind received separately (92(d)); and 2) information regarding transfers which are received at the discretion of the transfer provider (99).	Information regarding a transfer recipient's performance obligations (131)
Nature of compelled transactions and amounts not recognized as revenue (120)	Similar requirements as ED 70, but in the context of a price imposed by constitutional authority, legally sanctioned process or other mechanism. (98)	No comparable requirement, as this is a revenue-specific issue

Transaction price allocated to remaining performance obligations (121 to 123)	See paragraph 91(c) above regarding liabilities arising from enforceable actions or eligible expenditures.	Transaction consideration allocated to the resource recipient's remaining performance obligations (132 to 134)
Significant judgements regarding the timing of satisfaction of performance obligations and determination of transaction price and stand-alone price (124 to 127)	Basis of measurement of fair value for major classes of revenue without performance obligations. (92(b)). Qualitative information on revenue without performance obligations that cannot be measured reliably. (92(c) and 97)	Similar information as required by ED 70 regarding significant judgements for transfer expenses with performance obligations (135 to 138) and without performance obligations (141)
Information on assets recognized from costs to obtain or fulfill a binding arrangement, including significant judgements (128 to 129)	No comparable requirement, as disclosure relates to an ED 70-specific issue	No comparable requirement, as disclosure relates to an ED 70-specific issue
Use of practical expedients (130)	Similar information as required by ED 70 regarding the use of practical expedients. However, these requirements in the Transition section. (107, 109)	Similar information as required by ED 70 regarding the use of practical expedients (142)
Similar to rollforward information required by paragraph 116 as noted above.	See information required by paragraph 91 above. Only certain period-end balances and the amount of liabilities forgiven in a period are required to be disclosed in ED 71.	Rollforward of liabilities from binding arrangements for transfer expenses without performance obligations (139)
Requirements from ED 71:		
No comparable requirement as ED 71, as this is specific to enforceable activities and eligible expenditures.	Information regarding limits on the use of assets imposed by enforceable activities and eligible expenditures. (96)	No comparable requirement as ED 71, as this is specific to limitations imposed by enforceable activities or eligible expenditures to a transfer recipient.

No comparable requirement as ED 71, as this is specific to services in-kind received by an transfer recipient.	Encouraged disclosure of qualitative information on recognized services in-kind, as well as extent to which an entity is dependent on such services for achieving its objectives in the future. (93) (100)	No comparable requirement as ED 71, as this is specific to services in-kind received by an transfer recipient.
Requirements from ED 72:		
No comparable requirement as ED 72, as this is specific to approval of appropriations for the payment of expenses	No comparable requirement as ED 72, as this is specific to approval of appropriations for the payment of expenses	Disclosure of contingent liability arising from transfer expenses subject to approval of appropriations (140)

Recommendation

3. No changes required to ED 70, ED 71 or ED 72 as a result of Staff's analysis.

Appendix C - Illustrative Examples

Purpose

1. Compare the Illustrative Examples across ED 70, ED 71 and ED 72.

Detail

2. Staff reviewed the illustrative examples across ED 70, ED 71 and ED 72 and noted they were consistently applied across all three exposure drafts:

Comparison of ED 70, ED 71 and ED 72 Examples

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
1.	Transaction Arose from an Arrangement that is Not Binding	Examples 9 and 11 focuses on day-1 recognition of non-binding arrangements.	Example 4 (reworked and expanded as examples of when a binding arrangement includes a transfer expense).
2.	Transactions Arose from a Binding Arrangement Without Performance Obligations	Example 13 relates to a research grant *with* performance obligations and mirrors ED 70, Example 2.	*Scope of ED 72 differs from that of ED 70. ED 72 includes scope examples appropriate for that [draft] Standard*
3.	Transactions with One Component which is Within the Scope of ED 70, and Another Component which is Within the Scope of ED 71	Example 26 in ED 71 is based on example 3 from ED 70.	
4.	Enforceability by Mechanism other than Legal Means	Currently no example in ED 71, enforceability is the same as ED 70.	
5.	Collectability of the Consideration	Example 20 touches on collectability	*Relates to the transfer recipient, not the transfer provider*
6.	Consideration is not the Stated Price—Implicit Price Concession	Price concessions are not applicable to ED 71.	*Covers likelihood that the transfer provider cannot pay agreed amount*

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
7.	Implicit Price Concession	Example 17 on Fines illustrate concept of reducing the transaction price for amounts that are not expected to be collected as well as the disclosure requirements in ED 71.119.	*Covers likelihood that the transfer provider cannot pay standard rate*
8.	Reassessing the Criteria for Identifying a Binding Arrangement	Reassessment of whether there is a binding arrangement is not applicable to ED 71.	*Covers changes to the transfer provider's credit risk (i.e., own credit risk for this ED)*
9.	Modification of a Binding Arrangement for Goods	Examples deal with modification of performance obligations; not applicable to ED 71.	Example 5
10.	Change in the Transaction Price after a Modification of a Binding Arrangement		Example 6
11.	Modification of a Binding Arrangement of Services		Example 7
12.	Modification Resulting in a Cumulative Catch-up Adjustment to Revenue		Example 8
13.	Unapproved Change in Scope and Price		Example 9
14.	Goods and Services are not Distinct	Examples deal with identification of performance obligations; not applicable to ED 71.	Example 10
15.	Determining whether Goods or Services are Distinct		Example 11
16.	Explicit and Implicit Promises in a Binding Arrangement		*This example would involve the transfer provider receiving goods for its own use, which is outside the scope of ED 72.*
17.	Purchaser Simultaneously Receives and Consumes the Economic Benefits or Service Potential	Deals with criteria for recognition of revenue over time in ED 70. Not applicable to ED 71.	Example 12

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
18.	Assessing Alternative Use and Right to Payment		Example 13
19.	Asset has no Alternative Use to the Entity		Example 14
20.	Enforceable Right to Payment for Performance Completed to Date		*Involves an assessment of whether the transfer recipient's right to payment always covers their costs., which is not relevant to the transfer provider.*
21.	Assessing Whether a Performance Obligation is Satisfied at a Point in Time or Over Time		*Covers the sale of a single unit as the resource recipient develops a multi-unit residential complex. To be relevant to ED 72, the transfer provider would need to purchase the unit for a third-party beneficiary.*
22.	Measuring Progress when Making Goods or Services Available	Deals with measurement of revenue to be recognized over time. Not applicable to ED 71.	Example 15
23.	Uninstalled Materials		*Example covers the input method, which is not discussed in ED 72*
24.	Penalty Gives Rise to Variable Consideration	Variability due to penalties typically will not apply to ED 71 transactions.	Example 16
25.	Estimating Variable Consideration	Variability in example arose from a potential bonus, which typically will not apply to ED 71 transactions.	Example 17
26.	Right of Return	Not applicable, as ED 71 transactions will not contain a right of return of the goods or services transferred.	*The scenario where a transfer provider pays for goods to be delivered to third-party beneficiaries, who have the right to return the goods, is unlikely to arise.*

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
27.	Volume Discount Incentive	Volume discounts are not applicable to ED 71 transactions.	Example 18
28.	Management Fees Subject to the Constraint	Example 2 illustrates the recognition and measurement of revenue based on a statistical model, which is similar to the application of constraining variable consideration in ED 70.	*The scenario where a transfer provider pays for an asset management service for a third-party beneficiary is unlikely to arise (the scenario in ED 70 relates to the management of a pension fund).*
29.	Significant Financing Component and Right of Return	Example deals with financing and the right to return transferred goods; both concepts do not apply to ED 71 transactions.	*Right of return is not relevant to a transfer provider (see also example 26 above).*
30.	Withheld Payments on a Long-Term Binding Arrangement	These examples deal with the identification and measurement of a potential financing component arising from the timing of receipt of cash consideration; this concept is not applicable to ED 71.	Example 19
31.	Determining the Discount Rate		Example 20
32.	Advance Payment and Assessment of Discount Rate		Example 21
33.	Advance Payment		*The example relies on the transfer recipient's reasons for charging an upfront rather than a monthly fee in determining whether there is a financing element; this information may not be available to the transfer provider.*

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
34.	Entitlement to Non-Cash Consideration	Example 21 deals with valuation of goods received in-kind.	*The example deals with uncertainty when measuring fair value, which is not relevant to a transfer expense (measured at carrying amount).*
35.	Allocation Methodology	Examples deal with measurement of performance obligations; not applicable to ED 71.	Example 22
36.	Allocating a Discount		Example 23
37.	Allocation of Variable Consideration		*The example covers sales-based royalties, which require the transfer provider to gain control of an asset, and is therefore outside the scope of ED 72.*
38.	Provision of Vaccines to Third-Party Beneficiaries		*The example addresses the supplier's estimate of stand-alone price where there is a third-party beneficiary, using an estimated cost basis. This is not relevant to the transfer provider, and other examples in ED 72 deal with estimating the stand-alone purchase price.*
39.	Costs that Give Rise to an Asset	Examples deal with costs incurred to obtain or fulfill a binding arrangement. This concept is not be applicable to ED 71.	*The example only relates to the transfer recipient.*
40.	Binding Arrangement Liability and Receivable		Example 37 (Asset and Payable for the transfer provider).
41.	Binding Arrangement Asset Recognized for the Entity's Performance		Example 38 (Liability for the transfer provider)
42.	Receivable Recognized for the Entity's Performance		*The example illustrates a return liability, which is not relevant to the transfer provider.*

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
43.	Disaggregation of Revenue—Quantitative Disclosure	Example 25 (ED 71 example also includes disclosure of accounting policies as required by IPSAS 1 and transitional requirements.)	*The equivalent disclosure in ED 72 was removed by the IPSASB at the September 2019 meeting.*
44.	Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations	Examples deal with disclosure of information regarding performance obligations; not applicable to ED 71,	Example 39
45.	Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations—Qualitative Disclosure		Example 40
46.	Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions	Example 17 on Fines incorporates the disclosure requirements in ED 71.119, which are based on those in ED 70.120.	*These examples apply to the transfer recipient only*
47.	Arranging for the Provision of Goods or Services (Entity is an Agent)	Examples deal with principal/agent issues in the context of an arrangement to transfer goods or services. Not applicable to ED 71.	
48.	Promise to Provide Goods or Services (Entity is a Principal)		
49.	Promise to Provide Goods or Services (Entity is a Principal)		
50.	Promise to Provide Goods or Services (Entity is a Principal)		
51.	Arranging for the Provision of Goods or Services (Entity is an Agent)		

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
52.	Option that Provides the Purchaser with a Material Right (Discount Voucher)	Examples deal with a purchaser's right to obtain additional goods or services, including discounted renewals. Not applicable to ED 71.	Example 24
53.	Option that Provides the Purchaser with a Material Right (Renewal Option)		*In the example, recognition is based on the transfer recipient's costs, which is not relevant for a transfer provider.*
54.	Loyalty Program	Loyalty programs are not applicable to ED 71.	*The example applies to the transfer recipient only*
55.	Non-refundable Upfront Fee	Example deals with setup fees which are not applicable to ED 71.	Example 25
56.	Right to Use Intellectual Property	Examples deal with licenses with performance obligations and are not applicable to ED 71.	Example 26
57.	License of Intellectual Property		Example 27
58.	Identifying a Distinct License		Example 28
59.	Access to Intellectual Property		*The examples are not considered likely to occur under a transfer expense.*
60.	Right to use Intellectual Property (Recognition at Point in Time)		
61.	Sales-based Royalty for a License of intellectual Property		*The example applies to the transfer recipient only*
62.	Access to Intellectual Property		*The example is not considered likely to occur under a transfer expense.*
63.	Non-IP Licenses		
64.	Repurchase Agreements	Example deals with options which are potentially financing or leases; not applicable to ED 71.	*The example applies to the transfer recipient only*

ED 70 Ex #	Example Title from ED 70	Equivalent ED 71 Example or Rationale for Non-Inclusion	Equivalent ED 72 Example or Rationale for Non-Inclusion
65.	Bill-and-Hold Arrangement	Bill-and-hold arrangements are not applicable to ED 71.	Example 29 (scenario modified for ED 72)

ED 71 Specific Examples

ED 71 Example	Example Title from ED 71	Source of Example and Rationale
	Examples: 1) Income Tax, 3) Value Added Tax, 4) Goods and Services Tax, 5) Custom Duty, 6) Death Duties, 7) Property Tax, 16) Proposed Bequest, 17) Pledge, 18) Fine, and 19) External Assistance Recognized deal with the timing of recognition of revenue in various scenarios	Based on the following paragraphs from IPSAS 23: 1) IG1, 3) IG6, 4) IG8, 5) IG10, 6) IG12, 7) IG14, 16) IG32, 17) IG34, 18) IG36, and 19) IG38
	Examples: 8) Advance Receipts of Income Tax, 10) Transfer or Resources with an Enforceable Activity and/or Eligible Expenditure, and 12) Grant to Another Level of Government with Present Obligations deal with the recognition of a liability due to the receipt of consideration and prior to the completion of enforceable activities or eligible expenditures.	Based on the following paragraphs from IPSAS 23: 8) IG16, 10) IG22, and 12) IG24.
14.	Debt Forgiveness	IPSAS 23.IG28
22.	Disclosure of Services In-Kind not Recognized	IPSAS 23.IG47
23.	Contribution from Owners	IPSAS 23.IG49
24.	Transfer from Binding Arrangement not Requiring Recognition of a Liability (Arrangement was historically not enforced)	IPSAS 23.IG51
26.	Concessionary Loans	IPSAS 23.IG54
27.	Interaction Between Measurement Requirements of ED 71 and IPSAS 41	Consequential Amendments to IPSAS 23 from IPSAS 41

ED 72 Specific Examples

ED 72 Example	Example Title from ED 72	Source of Example and Rationale
1.	Transaction Where the Transfer Recipient Provides Goods and Services	Example developed to illustrate the scope of ED 72
2.	Research Grants	Example developed to illustrate the scope of ED 72
3.	Transaction with Components Within the Scope of Other IPSAS	Example developed to illustrate the scope of ED 72
36.	Taxes Paid and Payable	Examples 1–4 in IFRIC 21 have been reworked as Cases A–E and modified to avoid having too many examples being levies based on revenue earned.
41.	Disclosure of a Transfer Expense Subject to Appropriations	Issue is specific to transfer expenses

Recommendation

3. No changes required to ED 70, ED 71 or ED 72 as a result of Staff's analysis.

Appendix D - Table of concordance comparing paragraphs across IFRS 15, ED 70, and ED 72

Purpose

1. Compare the paragraphs across IFRS 15, ED 70, and ED 72.

Detail

2. Staff reviewed the paragraphs across IFRS 15, ED 70, and ED 72. Staff noted the exposure drafts have applied guidance across the documents in a consistent way:

Section	Paragraphs in IFRS 15	Paragraphs in ED 70	Paragraphs in ED 72
Objective, Scope and Definitions	1-8, Appendix A (No AG)	1-7 AG2-AG26	1-7 AG2-AG24
Transfer Expenses with Performance Obligations	N/A	N/A	8
Public Sector Performance Obligation Approach	N/A	N/A	9 AG25
Recognition: Identifying the Binding Arrangement (Step 1)	9-21 (No AG)	8-20 AG27-AG32	10-22 AG26
Recognition: Identifying the Performance Obligations (Step 2)	22-30 (No AG)	21-29 AG33-AG43	23-31 AG27-AG37
Recognition: Satisfaction of Performance Obligations (Step 5)	31-45 B2-B19	30-44 AG44-A61	32-45 AG36-AG51
Measurement	46	45	46
Measurement: Determining the Transaction Consideration (Step 3)	47-72 B20-B27	46-71 AG62-AG71	47-70 AG52-AG53
Measurement: Allocating the Transaction Consideration to	73-90 B28-B51	72-89 AG72-AG100	71-88 AG54-AG88

Section	Paragraphs in IFRS 15	Paragraphs in ED 70	Paragraphs in ED 72
Performance Obligations (Step 4)			
Binding Arrangement Costs	91-104 (No AG)	90-103 (No AG)	N/A
Transfer Expenses without Performance Obligations	N/A	N/A	89-119 AG89-AG114
Presentation	105-109 (No AG)	104-108 (No AG)	120-125 (No AG)
Disclosure	110-129 B87-B89	109-130 (AG139-AG141)	126-143 (No AG)
Other Application Issues	B52-B86	AG101-AG138	N/A
Subsequent Measurement of Non-Contractual Receivables	N/A	AG142-AG143	N/A

Recommendation

3. No changes required to ED 70 or ED 72 as a result of Staff's analysis.

Appendix E - Table of concordance comparing paragraphs across ED 71 and IFRS 23

Purpose

1. Compare the paragraphs across ED 71 and IPSAS 23.

Detail

2. Staff reviewed the paragraphs across ED 71 and IPSAS 23. Staff noted the exposure drafts have applied guidance across the documents in a consistent way:

Section	Paragraph		
	ED 71	IPSAS 23	Other Guidance
Objective	1	1	-
Scope	2	2	-
	3	5	-
	4	-	New
	5	6	-
	6	37	-
	7	38	-
	8	41	-
Definitions	9	7	-
	10	7	-
	11	12	-
	12	13	-
	13	14	-
	14	16	-
	15	-	New
	16	-	New
	17	-	New
	18	-	New
	19	-	New
	20	-	New
	21	-	New
	22	-	New
	23	23	-
	24	21	-

	25	18	-
	26	24	-
	27	25	-
	28	26	-
	29	27	-
	30	28	-
Analysis of the Initial Inflow of Resources from Transactions without Performance Obligations	31	29	-
Recognition	32	30	-
	33	31	-
	34	32	-
	35	33	-
	36	-	New
	37	34	-
	38	35	-
	39	36	-
	40	50	-
	41	51	-
	42	52	-
	43	53	-
	44	54	-
	45	55	-
	46	44	-
	47	45	-
	48	46	-
	49	47	-
Measurement	50	-	New
	51	42	-
	52	-	ED70.46
	53	-	New
	54	-	ED70.47

	55	-	ED70.48
	56	-	ED70.49
	57	-	ED70.50
	58	-	ED70.52
	59	-	ED70.53
	60	-	ED70.55
	61	-	ED70.56
	62	-	ED70.58
	63	57	-
	64	58	-
	65	48	-
	66	49	-
	67	-	New
	68	-	New
	69	-	New
	70	-	New
	71	-	New
Taxes	72	59	-
	73	60	-
	74	61	-
	75	62	-
	76	63	-
	77	64	-
	78	65	-
	79	-	New
	80	66	-
	81	67	-
	82	68	-
	83	69	-
	84	70	-
	85	-	New
	86	71	-
	87	72	-
	88	73	-

	89	74	-
	90	75	-
Transfers	91	76	-
	92	-	New
	93	-	New
	94	-	New
	95	-	New
	96	-	New
	97	98	-
	98	-	New
	99	99	-
	100	100	-
	101	101	-
	102	102	-
	103	103	-
	104	104	-
	105	105	-
	106	105A	-
	107	105B	-
Disclosures	108	106	-
	109	107	-
	110	108	-
	111	109	-
	112	110	-
	113	111	-
	114	112	-
	115	113	-
	116	-	ED70.120
	117	114	-
	118	115	-
Effective Date	119	124	-
	120	125	-
	121	-	ED70.133
	122	-	ED70.134

	123	-	ED70.135
	124	-	ED70.136
	125	-	ED70.137
	126	-	ED70.138
	127	-	ED70.140
	128	-	New
Application Guidance			
	AG1	-	New
Objective	AG2	-	New
Scope	AG3	-	New
	AG4	-	New
	AG5	-	New
	AG6	-	New
	AG7	-	New
	AG8	-	New
	AG9	-	New
Definitions	AG10	-	New
	AG11	-	New
	AG12	-	New
	AG13	-	New
	AG14	-	New
	AG15	-	New
	AG16	-	New
	AG17	-	New
	AG18	-	New
	AG19	-	New
	AG20	-	New
	AG21	-	New
	AG22	-	New
	AG23	-	New
	AG24	-	New
	AG25	-	New
	AG26	-	New
	AG27	-	New

Revenue without Performance Obligations Subject to Appropriations	AG28	-	New
	AG29	-	New
	AG30	-	New
	AG31	-	New
	AG32	-	New
Determining the Transaction Price	AG33	-	ED70.AG65
	AG34	-	New
Transfers	AG35	76	-
	AG36	77	-
	AG37	78	-
	AG38	79	-
	AG39	80	-
	AG40	81	-
	AG41	82	-
	AG42	83	-
	AG43	84	-
	AG44	85	-
	AG45	86	-
	AG46	87	-
	AG47	-	New
	AG48	-	New
	AG49	88	-
	AG50	89	-
	AG51	90	-
	AG52	91	-
	AG53	92	-
	AG54	93	-
	AG55	94	-
	AG56	95	-
	AG57	96	-
	AG58	97	-

Recommendation

No changes required to ED 71 as a result of Staff's analysis.

Appendix F – Scoping Guidance in ED 70 and ED 71

Purpose

1. To provide IPSASB members with the relevant scoping paragraphs in ED 70 and ED 71.

Detail

2. Staff reviewed the scoping paragraphs across ED 70 and ED 71. Staff noted the exposure drafts clearly outline the scoping requirements of each exposure draft.

ED 70

Scope

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

   (a) Revenue arising from other 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);

   (b) Lease contracts within the scope of IPSAS 13, *Leases*[3];

   (c) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[4];

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

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

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

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

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

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

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

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

(j) The extraction of mineral resources.

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

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

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

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

6. This [draft] Standard specifies the accounting for the incremental costs of obtaining a binding arrangement with 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 90–103). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement with a purchaser (or part of that binding arrangement) that is within the scope of this [draft] Standard.

Paragraphs AG5-AG6 provide additional guidance on the Scope.

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*.

ED 71

Scope

2. **An entity (transfer recipient) that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue from transactions without performance obligations. This [draft] Standard does not apply to:**

   (a) A public sector combination that is a non-exchange transaction;

   (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26-31 of IPSAS 42, *Social Benefits* (the insurance approach); and

   (c) Revenue from transactions with performance obligations (see [draft] Standard (ED 70).

3. This [draft] Standard addresses revenue arising from transactions without performance obligations. Revenue arising from transactions with performance obligations is addressed in draft IPSAS [X] (ED 70). While revenues received by public sector entities arise from both transactions with and without performance obligations, the majority of revenue of governments and other public sector entities is typically derived from transactions without performance obligations, such as:

   (a) Taxes; and

   (b) Transfers (whether cash or noncash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received.

4. Revenue transactions without performance obligations are transactions where control of the resources is maintained by the entity (transfer recipient) as there is no requirement to transfer any goods or services to a transfer provider or a third-party beneficiary. The entity (transfer recipient) determines how the resources will be used and whether they will remain within the entity (transfer recipient) or be used outside the entity. Transactions within the scope of this [draft] Standard differ from those within the scope of [draft] IPSAS [X] (ED 70) where, a performance obligation does require a transfer of goods or services to either the purchaser (transfer provider) or a third-party beneficiary.

5. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Public sector combinations shall be accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

Scope (see paragraphs 2–4)

AG3. The scope of this [draft] Standard is focused on establishing the principles and requirements for accounting for revenue without performance obligations.

AG4. Revenue may arise as a result of a transaction from a binding arrangement that requires the transfer recipient to use the transfer either on an enforceable activity or incurring eligible expenditure. Revenue may also arise as a transaction without a binding arrangement. However, the key principle is that the transfer recipient is not required to fulfil a performance obligation (as defined in [draft] IPSAS [X] (ED 70) with the resources transferred.

AG5. In practice, an entity (transfer recipient) will consider whether it maintains control of the resources provided by the transfer provider. If the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are transferred to the transfer provider, or to a third-party beneficiary, the transaction is accounted based on the requirements of [draft] IPSAS [X] (ED 70). Where there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary or the entity (transfer recipient) directs the use of the economic benefit of the good or service then the requirements of this [draft] Standard apply

AG6. For example, where an entity (transfer recipient) receives cash or another asset from an international financial institution (transfer provider) to provide training services on the entity's own accounting practices, the arrangement is accounted for within the scope of this [draft] Standard when the entity (transfer recipient) is able to determine who will receive the training services. Often arrangements of this nature that will be within the scope of the [draft] Standard will be where the training services are provided internally to the entity (transfer recipient). This is because the entity (transfer recipient) receives the benefit of the good or service. If the international financial institution requires the training services be delivered to the staff of the international financial institution, the arrangement would be within the scope of [draft] IPSAS [X] ED 70 as the benefit from the good or service is transferred to the transfer provider.

AG7. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding, therefore this [draft] Standard addresses accounting for:

(a) Taxes;

(b) Capital transfers; and

(c) Other transfers including, debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received.

Recommendation

3. No changes required to ED 70 or ED 71 as a result of Staff's analysis.

Measurement requirements for transactions in scope of ED 70 and ED 71

Question

1. Does the IPSASB agree:

   (a) Revenue transactions in scope of ED 71 should be initially measured at the transaction price (Appendix A);

   (b) Subsequent measurement of non-contractual receivables should be at amortized cost, except in specific circumstances where fair value is more appropriate (Appendix B);

   (c) Where the amount of the receivable in scope of ED 71 cannot be determined, measurement should occur only when it is highly probable a significant reversal will not occur (Appendix C); and

   (d) The face value of revenue transactions in scope of ED 71 should be disclosed (Appendix D).

Detail

2. The IPSASB instructed Staff to consider the measurement requirements in ED 70 and ED 71 to ensure there is consistency across all types of revenue. The IPSASB further instructed that where differences exist, they should be clearly explained.

3. Figure 1[1] summarizes the measurement requirements for different components of transactions within the scope of ED 70 and ED 71 (ED 72 is included only for comparison purposes). Shaded boxes include measurement requirements already agreed by the IPSASB. Unshaded boxes are Staff recommendations for measurement requirements not yet agreed by the IPSASB for ED 71.

Recommendation

4. Staff recommend unshaded text in Figure 1 be included as measurement guidance in ED 71. This will enhance consistency with ED 70 and IPSAS 41.

Decisions required

5. Does the IPSASB agree with Staff's recommendation?

[1] A more detialed version of Figure 1 is included in Appendix F.

Figure 1 – Summary of Revenue Measurement Requirements

Figure 1 – Summary of Revenue Measurement Requirements

	ED 70	ED 71 (transfers)	ED 71 (taxes)	ED 72 (Performance Obligation)	ED 72 (No Performance Obligation)
Revenue	Transaction Price **(ED 70.45)**	Transaction Price See Appendix A **(ED 71.50)**[2]	Transaction Price (best estimate) **(ED 71.81)**	Transaction Consideration (Transaction Price) **(ED 72.47)**	Carrying Amount of Resources Transferred **(ED 72.102)**
Receivables (Asset)	Transaction Price **(IPSAS 41.60)**[3]	Transaction Price See Appendix A **(ED 71.50)**	Transaction Price[4] (best estimate) **(ED 71.81)**	Transaction Consideration (Transaction Price) **(ED 72.47)**	Best Estimate of the Cost **(ED 72.103)**
Subsequent Measurement of Receivable	Apply IPSAS 41 Likely amortized cost **(IPSAS 41.39)**	Amortized Cost See Appendix B **(ED 71.69 – ED 71.71)**	Amortized Cost See Appendix B **(ED 71.69 – ED 71.71)**	-	-
Uncertain Collection Amount (Long-Dated)	Limited to highly probable amounts **(ED 70.55)**	Limited to highly probable amounts See Appendix C **(ED 71.60)**	Limited to highly probable amounts See Appendix C **(ED 71.60)**	-	-
Disclosure	Face Value The amount not recognized as revenue because collection of a compelled transaction was not probable is disclosed **(ED 70.120(c))**	Face Value The amount not recognized as revenue because collection of an imposed transaction was not probable is disclosed See Appendix D **(ED 71.116(c))**	Face Value The amount not recognized as revenue because collection of an imposed transaction was not probable is disclosed See Appendix D **(ED 71.116(c))**	-	-

Non-Contractual Receivables[4]

[2] ED 71.65 (previously IPSAS 23.48) requires *revenue from a transaction without a performance obligation shall be measured at the amount of the increase in net asset recognized by the entity (transfer recipient)*. When an entity recognizes an asset at the transaction price in accordance with proposed ED 71.50, it also recognizes revenue equivalent to the amount of the asset, unless it also recognizes a liability.

[3] IPSAS 41.60 requires the recognition of short-term receivables at the original invoice amount. This practical expedient was included to establish a link with IPSAS 9, *Revenue from Exchange Transactions*. The FI Task Force agreed during the development of IPSAS 41 that this paragraph would require a consequential amendment when ED 70 becomes an IPSAS.

[4] Receivable is non-contractual therefore it is not in scope of IPSAS 41.

Appendix A – Initial Measurement of Revenue Transactions in Scope of ED 71

Purpose

1. To summarize why transaction price is the recommended measurement basis for ED 71 revenue transactions (and the related receivable).

Background

2. IPSAS 23 currently includes requirements for the measurement of non-contractual receivables[5] in paragraph 42 noting that *an asset acquired through a non-exchange transaction shall initially be measured at fair value as at the date of acquisition*.

3. Because some constituents expressed concerns about the appropriateness of the fair value requirements in IPSAS 23 for non-contractual receivables, the *Accounting for Revenue and Non-Exchange Expenses Consultation Paper* asked constituents for their views.

4. Constituents' concern with determining fair value is that there is unlikely to be an active market for transactions in scope of ED 71. If there is no active market, a valuation technique is applied to determine the transaction price on the measurement date, which can be challenging. Some constituents have suggested face value as an alternative measurement basis.

5. Proponents of measuring ED 71 revenue transactions, and any associated non-contractual receivable, at face value argue that the approach promotes accountability and is in the public interest.

Detail

Non-Contractual Receivables

6. The initial measurmenet of non-contractual receivables must equal the initial measurement of the related revenue, or liability when a liability is recognized. As such, establishing the intial measurement requirememts for non-contractual receivables required staff to consider the initial measurement requirements of:

   (a) Revenue in scope of ED 71; and

   (b) The contractual receivables in scope of ED 71

Extract from the development of Figure 1 (guidance in shaded boxes has been approved by the IPSASB)

<table>
<tr><td></td><td>ED 70</td><td colspan="2">ED 71
(transfers)</td><td>ED 71
(taxes)</td></tr>
<tr><td>Revenue</td><td colspan="2">Transaction Price
(ED 70.45)</td><td colspan="2">???
Established in this Memo</td><td>???
Established in this Memo</td></tr>
<tr><td>Receivables (Asset)</td><td>Transaction Price
(IPSAS 41.60)</td><td colspan="2">Non-Contractual Receivables
???
Established in this Memo</td><td>???
Established in this Memo</td><td>Non-Contractual Receivables
???
Established in this Memo</td></tr>
</table>

[5] Commonly, non-contractual receivables arise from legislation, supporting regulations or similar mechanisms and require settlement in cash or another asset. Examples of non-contractual receivables include:
   (a) Taxes;
   (b) Government transfers (in some cases);
   (c) Fines and penalties;
   (d) Fees; and
   (e) Licenses.

Constituent concerns

7. Staff notes the issues identified in applying the IPSAS 23 fair value measurement requirements are:

   (a) **Challenging valuation.** Determining the fair value of revenue in scope of ED 71 and the receivable is challenging when:

      (i) Collection is uncertain: Specifically, the amount the entity is entitled to receive as a future cash flow (collection risk is a separate issue); and

      (ii) Discounting: It is necessary to consider discounting the transaction amount to account for the time value of money when payment is due 12 months or more after the present obligation is satisfied. Determining an appropriate discount rate can be complicated.

   (b) **Accountability**. Recognizing that face value promotes accountability as those in charge of managing non-contractual receivables can be held to account. For example, where uncollectible amounts are significant, the face value of the amounts the entity is entitled to provides information on the effective management and collection of those amounts. Those charged with management of these amounts can be held accountable for their collection.

Technical Analysis

ED 71 Revenue transactions

8. Revenue is defined in IPSAS 1, paragraph 7, and ED 70, paragraph 9, as *the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners*.

Face value

9. Face value is the nominal amount of the transaction. As it relates to revenue in scope of ED 71, it is the amount imposed by one party – often in legislation, for example fines for breaking traffic legislation.

10. Recognizing revenue at its face value results in an amount being recognized that exceeds the increase in net assets/equity. This is because, when revenue is recognized at face value, or a legislated amount, a proportion of the amount is known to be uncollectible[6]. Uncollectable amounts are not increases in net assets/equity and therefore do not provide a faithful representation of the transaction.

Transaction price

11. The measurement requirements for revenue in the scope of ED 70 have been approved by the IPSASB. When revenue in scope of ED 70 is initially measured at the transaction price, the related non-contractual receivable is also measured at the transaction price.

12. Non-contractrual receivables in the scope of ED 70 share all characteristics with non-contractrual receivables in the scope of ED 71, except for a performance obligation. As such,

[6] Uncollectibility in this context realtes to uncertainty in amount of future cash flows because they have been imposed by one party and not negotiated. Credit risk is not considered in this context.

measuring the non-contractual receivable consistently is appropriate to ensure similar transactions are acccounted for in a consistent manner.

13. Furthermore, a transaction price measurement[7], which is the amount of inflows the entity expects to receive in the transaction, is more relevant to users of financial informatin then face value. This is because the transaction price considers the nominal amount of the transaction may not be the best indicator of inflows of economic benefits or service potential the entity will receive.

14. Applying a transaction price to initially measure revenue in scope of ED 71 also limits transitional requirements related to measurement on adoption of ED 70. This is because the fair value measurement requirements in IPSAS 23 are largely consistent with initially measuring revenue at its transaction price. This is because a transaction price estimates the expected cash flows the transfer recipient is expected to receive, which is consistent with the concept of measuring the amount the entity expects to receive when selling when measuring fair value. The key difference between the measure is that credit risk is excluded from the measurement of transaction price[8]. However, because the credit risk is taken into account in the initial impairment measurement, in accordance with IPSAS 41, the final amount is consistent.

Non-contractual receivables

15. Amounts that are known to be uncollectible are not an asset because an asset is a resource that is presently controlled by the entity as a result of a past event. Recognizing a non-contractual receivable at its face value, when a portion is known to be uncollectible, is recognizing an amount that will never flow to the entity and does not represent a future economic benefit or resource.

16. Furthermore, recognizing receivables within the scope of ED 70 at transaction price is consistent with the principles of IPSAS 41, *Financial Instruments*. This is because IPSAS 41 requires financial assets related to revenue transactions within the scope of ED 70 to be measured initially at their transaction price. While non-contractual receivables are not in scope of the financial instruments suite of standards, they share many characteristics with a financial asset; both are settled in cash. Accounting for similar transactions consistently is generally in the public interest.

Recommendation

17. Recognizing ED 71 revenue transactions and the related receivables at transaction price is appropriate because:

    (a) It provides the most faithfully representative measure of the revenue accruing to the entity;

    (b) Meets the definition of revenue and an asset;

[7] ED 70.46 states *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*.

[8] Impairment is measured in accordance with the requiremetns of IPSAS 41 and applied to revenue transactions at initial measurement after the transaction price is calculated.

(c) A non-contractual receivable shares characteristics with contractual receivables in IPSAS 41 and guidance should therefore be consistent;

(d) Creates consistency in measurement across ED 70 and ED 71 which eliminates arbitrage opportunities and results in similar transactions being accounted for consistently;

(e) Is largely consistent with the fair value measurement requirements in IPSAS 23 meaning lower costs of adoption; and

(f) When applied in conjunction with the recommendation in Appendix C, the approach addresses concerns raised by constituents:

(i) **Collection uncertainty.** This is no longer an issue because measurement, which is complex when amounts are uncertain, is not required unless it is highly probable a significant reversal will not occur; and

(ii) **Discounting**. Challenges in determining the discount rate arise from uncertainty in the timing and amount of future cash flows. When the timing and amount of cash flows is determinable, as is the case when it is highly probable a significant reversal will not occur, discounting is no longer an issue.

18. Staff recommend incorporating the definition of transaction price from ED 70, making modifications as necessary, to ED 71. Paragraphs 7, 52 – 62, based on existing guidance in ED 70 (see marked-up text in Appendix E) have been added to ED 71:

7. ***The transaction price (for a revenue transaction without a performance obligations) is the amount of inflows of future economic benefits or service potential an entity expects to be entitled in a transactions without performance obligations, other than contributions from owners.***

Determining the Transaction Price

52. An entity shall consider the terms of the transaction and its customary practices to determine the transaction price. The transaction price is the amount of inflows of future economic benefit or service potential to which an entity expects to be transferred in a revenue transaction without performance obligations. The inflow in a transaction may include fixed amounts, variable amounts, or both.

53. Credit risk is not considered when determining the amount to which the entity (transfer recipient) expects to receive. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41, Financial Instruments.

54. The nature, timing and amount of the transfer affect the estimate of the transaction price. When determining the transaction price, an entity (transfer recipient) shall consider the effects of all of the following:

(a) Variable inflows (see paragraphs 56-59 and 62); and

(b) Constraining estimates of variable inflows (see paragraphs 60-61).

55. For the purpose of determining the transaction price, an entity (transfer recipient) shall assume that the inflow will be transferred to the entity (transfer recipient) in accordance with the terms of the transaction.

Variable Inflows

56. If the inflow in the transaction includes a variable amount, an entity (transfer recipient) shall estimate the amount of the inflow to which the entity (transfer recipient) expects to collect from the transfer provider.

57. An amount of an inflow can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The inflow can also vary if an entity's (tranfer recipient) entitlement to the the inflow is contingent on the occurrence or non-occurrence of a future event. For example, a taxable event occurs when an individual dies. However, the amount of the cash inflow is dependent on the size of the estate which may be determinable in a period subsequent to the reporting period.

58. An entity (transfer recipient) shall estimate an amount of variable inflows by using either of the following methods, depending on which method the entity (transfer recipient) expects to better predict the amount of inflows to which it expects to receive:

    (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable inflows if an entity (transfer recipient) has a large number of transactions 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 transaction). The most likely amount may be an appropriate estimate of the amount of variable inflows if the transaction has only two possible outcomes (for example, an entity (transfer recipient) either completes construction of infrastructure on scheudle or not).

59. An entity (transfer recipient) shall apply one method consistently throughout the transaction when estimating the effect of an uncertainty on an amount of variable inflows to which the entity (transfer recipient) expects to receive. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity (transfer recipient) and shall identify a reasonable number of possible consideration amounts. The information that an entity (transfer recipient) uses to estimate the amount of variable inflows would typically be similar to the information that the entity's (transfer recipient) management uses to estimate the amount receivable.

Constraining Estimates of Variable Inflows

60. An entity (transfer recipient) shall measure revenue without performance obligations in accordance with paragraph 52 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable inflow is subsequently resolved.

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

    (a) The amount of inflow is highly susceptible to factors outside the entity's (transfer recipient) influence. Those factors may include volatility in a market, the judgment or

actions of third parties, weather conditions and a high risk of obsolescence of the inflow when it is non-cash.

(b) The uncertainty about the amount of inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event. For example, the amount of inheritance tax receivable from a large estate may take years to determine after the death of the individual.

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

(d) The transaction has a large number and broad range of possible inflow amounts.

Reassessment of Variable Inflows

62. At the end of each reporting period, an entity (transfer recipient) shall update the estimated transaction price (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Decisions required

19. Does the IPSASB agree with the Staff recommendation?

Appendix B – Subsequent Measurement of Non-Contractual Receivables

Purpose

1. To summarize why amortized cost is recommended for subsequent measurement of non-contractual receivables from revenue transactions in scope of ED 70 and ED 71.

Background

2. As IPSAS 23 does not address the subsequent measurement of non-exchange revenues, including non-contractual receivables, the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses,* sought stakeholders' views on how to account for these transactions.

3. Respondents to the Consultation Paper noted:

   (a) Most receivables are collected within one year; as such, the cost and amortized cost models may produce the same result; and

   (b) Fair value was considered to be the least useful approach. Only 26% or respondents supported Preliminary View 9 that the subsequent measurement of non-contractual receivables should use the fair value approach. Constituents noted fair value was challenging to calculate in practice and not relevant when the entity is expecting to collect the cash flows.

Detail

4. Contractual receivables from revenue transactions in scope of ED 70 and ED 71 are subsequently measured in accordance with the requirements of IPSAS 41, *Financial Instruments*[9], that requires the instrument be measured at amortized cost when:

   (a) The entity intends to collect the cash flows; and:

   (b) The terms give rise to cash flows that are solely payments of principal and interest.

5. It is expected most contractual receivables in scope of ED 70 and ED 71 will satisfy these criteria and will therefore be subsequently measured at amortized cost.

Analysis

6. Non-contractual receivables share key characteristics with Financial Instruments:

   (a) Both result from revenue in scope of ED 70 and ED 71, meaning the economics of the transaction are consistent; and

   (b) The receivable is settled in cash.

   Given these similarities it seems appropriate to subsequently measure non-contractual receivables in a consistent way with contractual receivables.

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[9] IPSAS 41.40 - A financial asset shall be measured at amortized cost if both of the following conditions are met:
(a) The financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

7. Furthermore, where an entity (transfer recipient) intents to collect the non-contractual cash flows, instead of selling them to a third party, and the non-contractual cash flows relate solely to the revenue transaction in scope of ED 70 or ED 71[10], amortized cost is an accurate measure of the value of the non-contractual receivable to the entity (transfer recipient). This is because amortized cost is a historical cost measure that provides relevant and useful information about the asset's likely cash flows. Since the entity plans to collect the cash flows this accurately presents its value.

8. While it may be rare, where the entity (transfer recipient) does not intend to collect the non-contractual cash flows from revenue in scope of ED 70 or ED 71, or the non-contractual cash flows are not specific to the revenue transaction in scope of ED 70 or ED 71, fair value is a more accurate measure of the non-contractual receivable. This is because fair value assumes the non-contractual receivable will be sold or transferred at the measurement date which is consistent with the characteristics of this item. Furthermore, where the future cash flows do not solely relate to the revenue transaction in scope of ED 70 or ED 71, variability in cash flows will also occur. Fair value accurately presents this variability to users of the information.

Recommendation

9. Non-contractual receivables from revenue transactions in scope of ED 70 and ED 71 should be subsequently measured at amortized cost, unless the entity intends to sell the cash flows, or the cash flows compensate for factors ancillary to the revenue transaction in scope of ED 70 or ED 71. This is appropriate because:

   (a) It creates consistency between the accounting for contractual and non-contractual receivables from revenue transactions in scope of ED 70 and ED 71; and

   (b) Subsequent measurement at amortized cost reflects the economics of the transaction.

10. Paragraph AG142, AG143 and BC59 has been added to ED 70:

   Subsequent Measurement of Non-Contractual Receivables

   AG142. A non-contractual receivable that will be settled by future cash flows shall be measured subsequently at amortized cost in accordance with paragraphs 69–70 of IPSAS 41 when:

      (a) The entity's (transfer recipient) objective is to hold the non-contractual receivable in order to collect the cash flows; and

      (b) The terms of the non-contractual receivable give rise on specified dates to cash flows that are solely payments relating to the revenue within the scope of this [draft] Standard.

   AG143. Where a non-contractual receivable does not satisfy the requirements in paragraph 57, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

[10] To illustrate this concept, an example of where non-contractual cash flows DO NOT relate solely to the revenue transaction in scope of ED 70 or ED 71 is where the cash flows receivable are tied to the value of a variable unrelated to the transaction. For example, an oil company violates an environment regulation and is fined CU1 million. If the amount is not transfed within 30 days interest is charged based on the market price of oil. In this case the payment is not solely related to the revenue transaction in scope of ED 70 or 71.

BC59. IFRS 15 did not include specific guidance on the subsequent measurement of receivables, as IFRS 15 dealt with contractual agreements, and all receivables arising from such agreements would be within the scope of the financial instrument standards. Because [draft] IPSAS [X] (ED 70) applies more broadly to binding arrangements with performance obligations, it is possible for a receivable to fall outside the scope of IPSAS 41 if it arose from a non-contractual binding arrangement. Applying the measurement requirements of [draft] IPSAS [X] (ED 70) to such non-contractual binding arrangements would result in non-contractual receivables being initially measured at the transaction price. To address the lack of guidance for subsequent measurement of non-contractual receivables, the IPSASB added paragraphs AG142 – AG143, which are based on the subsequent measurement guidance for financial assets measured at amortized cost.

11. Paragraph 70 and 71 have been added to ED 71:

Subsequent Measurement of Non-Contractual Receivables

70. An asset that is a non-contractual receivable that will be settled by future cash flows shall be measured subsequently at amortized cost in accordance with paragraphs 69–70 of IPSAS 41 when:

    (a) The entity's (transfer recipient) objective is to hold the non-contractual receivable in order to collect the cash flows; and

    (b) The terms of the non-contractual receivable give rise on specified dates to cash flows that are solely payments relating to the revenue within the scope of this [draft] Standard.

71. Where a non-contractual receivable does not satisfy the requirements in paragraph 70, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

Decisions required

12. Does the IPSASB agree with the Staff recommendation?

Appendix C – Measurement of Receivables where the Amount Collectible is Uncertain

Purpose

1. To outline how Staff addressed the IPSASB's instruction to consider measurement of receivables from ED 71 revenue transactions with long collection periods and so resulting in uncertainty of collectible amounts.

Background

2. At the September 2019 meeting, the IPSASB identified measurement of long-dated receivables, where the amount of collection is uncertain, as a challenge in the public sector as it requires a complex estimation process and leads to volatility in revenue.

3. This issue was raised in the context of tax revenue. In many cases a tax authority is aware they are entitled to, and will be able to collect, revenues, but are unaware of the amount they are entitled to collect. This can occur when a wealthy individual passes away, and upon their death they are required to pay an inheritance tax. In some cases, it can take years to identify all the assets, and as a result, how much inheritance tax the tax authority is entitled to. While there is certainty in collection, there is significant uncertainty in the amount the tax authority is entitled to.

Detail

Short-Term / Long-Term Receivables

4. Transactions where the amount of collection is uncertain are most likely associated with transactions with long-term settlement (long-dated collection). However, Staff noted collection uncertainty is also associated, albeit less commonly, with transactions that are settled in the short-term. For example, Government Organization A enters into a non-contractual arrangement where office space is rented to Government Organization B. Rent is set at the end of each quarter by the central government. While rent is due quarterly, the amount is uncertain until set by the central government.

5. As a result, when analyzing this issue, Staff considered all non-contractual receivables, not just long-dated receivables.

Existing Requirements in ED 70

6. When measurement uncertainty exists for revenue transactions in scope of ED 70, ED 70 requires consideration only be recognized to the extent it is highly probable that a 'reversal in the amount of cumulative revenue recognized' will not occur (ED 70.55).

7. Incorporating this "highly probable" constraint prior to measuring the fair value of revenue transactions in scope of ED 71 addresses the challenge identified by constituents of measuring revenue when the amount is unknown at the time of the obligating event.

8. For example, a taxation authority is entitled to an inheritance tax. At the time the individual dies, the size of the estate is unknown. The authority estimates when the estate is settled, there is a 30% chance they will receive CU100 and a 70% chance they will receive CU0. Estimating fair value using a probability weighted approach yields an estimate of CU30 (.30 x 100 + .70 x 0). Constituents note this process is challenging. However, since it is not "highly probable" revenue will not be reversed, incorporating the "highly probable" constraint results in no revenue

estimation being required while such uncertainty exists and eliminates the need to perform the onerous calculation.

9. Estimating revenue is only required once the entity can determine the transaction amount and how much it is likely to collect. This reduces volatility in revenue, as it is unnecessary to reverse estimates in future periods, which is consistent with ED 70 and better enables users to understand the entity's revenue position.

Recommendation

10. Staff recommend incorporating the "highly probable" constraint from ED 70 into ED 71. Staff recommend this constraint be added as a step prior to the measurement of revenue at fair value. Incorporating the "highly probable" constraint in this way includes the following benefits:

    (a) Increases consistency across the revenue suite of standards;[11]

    (b) Maintains the measurement of revenue transactions in scope of ED 71 at fair value; and

    (c) Addresses stakeholder concerns it is too difficult / time consuming to calculate revenue where the transaction amount is unknown.

11. Paragraphs 60, 61, AG33, AG34, BC16, BC17 and BC18 have been added to ED 71:

    Constraining Estimates of Variable Consideration

    60. An entity (transfer recipient) shall measure revenue without performance obligations in accordance with paragraph xx only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable inflow is subsequently resolved.

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

    (a) The amount of inflow is highly susceptible to factors outside the entity's (transfer recipient) influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the inflow when it is non-cash.

    (b) The uncertainty about the amount of inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event. For example, the amount of inheritance tax receivable from a large estate may take years to determine after the death of the individual.

[11] The analysis was performed in consideration of long-dated receivables. However, the recommendation is to incorporate a constraint that is applicable to all revenue transactions in scope of ED 71. Staff is of the view this recommendation is appropriate as it is consistent with ED 70. Furthermore, it is likely the constraint will be applied more often to long-dated receivables. This is because it is less likely there is uncertainty whether a significant reversal will occur for a short-term transaction.

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

(d) The transaction has a large number and broad range of possible inflow amounts.

AG33. An entity (transfer recipient) shall apply the requirements in paragraphs 53-54 (including the requirements for constraining measurement in paragraphs 49-52) to determine the amount of revenue to which the entity expects to be entitled. For any revenue for which an entity does not believe it is highly probable that a significant reversal in the amount, the entity shall not recognize revenue. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in order to determine whether the threshold for measurement has been achieved.

AG34. Since estimating revenue is only required once the entity can determine the transaction amount and how much it is likely to collect. This reduces volatility in revenue, as it is unnecessary to reverse estimates in future periods, which is consistent with ED 70 and better enables users to understand the entity's revenue position.

BC16. In responding to constituent concerns related to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

BC17. The issue identified by constituents is there are a number of revenue transactions within the scope of draft IPSAS [X] ED (71) that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. This can occur when a wealthy individual passes away and upon their death they are required to pay an inheritance tax. In some cases, it can take years to identify all the assets, and as a result, how much inheritance tax the tax authority is entitled to. While there is certainty in collection, there is significant uncertainty in the amount the tax authority is entitled to.

BC18. The IPSASB agreed these transactions presented measurement challenges and could generated unnecessary volatility in the financial statements. Incorporating a constraint limiting measurement to when it is highly probably a significant reversal will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain which addressed concerns raised by constituents.

Decisions required

12. Does the IPSASB agree with the Staff recommendation?

Appendix D – Disclosure of Face Value of the Revenue Transaction

Purpose

1. To outline how Staff addressed the IPSASB's instruction to provide users with information regarding the face value of ED 71 revenue transactions.

Background

2. At the September 2019 IPSASB meeting, members instructed Staff to consider whether revenue without a performance obligation should be measured, or disclosed, at face value.

3. Members considered this point in the context of tax revenue noting face value has valuable informational value as it informs users of the amount the government is entitled to compared with what it is expected to collect.

Detail

Measuring revenue at face value

4. Staff considered recognizing non-contractual revenue at face value. However, Staff concluded measuring revenue at face value is not appropriate because it does not meet the definition of an asset / revenue. See analysis in Appendix A.

Disclosure of revenue at face value

5. While Staff does not recommend measuring revenue transactions in scope of ED 71 and non-contractual receivables at face value, Staff is of the view disclosing the face value is in the public interest.

6. This view is consistent with the ED 70 guidance, which the IPSASB agreed to add for public sector specific reasons, to require disclosure of the face value of a transaction where the entity is compelled to provide goods or services regardless of the purchaser's ability to pay.

7. Staff recommend incorporating this disclosure into ED 71 in order to:

   (a) Provide financial statement users with the information on the face value of the transaction; and

   (b) Maintain consistency of disclosure across the revenue standards (ED 70 and ED 71).

8. Paragraph 116 has been added to ED71:

   In the public sector, an entity (transfer recipient) may impose a cost on another party by way of constitutional authority, legally sanctioned process, or other mechanism, where the face value of the revenue without a performance obligation transaction may not always be collectible. This is common in transactions to collect taxes or fines, where the entity is aware they may not collect face value. An entity shall disclose the following*:*

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

   (b) *The amount of revenue from these transactions that was recognized after application of paragraphs 60-61 of this [draft] Standard; and*

   (c) *The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 60.*

Decisions required

9. Does the IPSASB agree with the Staff recommendation?

Appendix E – Transaction Price Text (Marked-Up)

Purpose

1. To provide an overview of the recommended changes to transaction price text in ED 70, incorporated in ED 71.

Marked Up Text

The transaction price (for a ~~binding arrangement with a purchaser~~revenue transaction without a performance obligation) is the amount of ~~consideration to which~~inflows of future economic benefits or service potential 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~~a transaction without performance obligations, other than contributions from owners.

Step 3: Determining the Transaction Price

47. An entity shall consider the terms of the ~~binding arrangement~~transaction and its customary practices to determine the transaction price. The transaction price is the amount of ~~consideration~~ inflows of future economic benefit or service potential 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)~~transferred in a revenue transaction without performance obligations. The ~~consideration promised~~inflow in a ~~binding arrangement~~transaction ~~with a purchaser~~ may include fixed amounts, variable amounts, or both.

Credit risk is not considered when determining the amount to which the entity (transfer recipient) expects to receive. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41, Financial Instruments.

~~47.~~48. The nature, timing and amount of ~~consideration promised~~the transfer ~~by a purchaser~~ affect the estimate of the transaction price. When determining the transaction price, an entity (transfer recipient) shall consider the effects of all of the following:

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

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

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

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

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

~~48.~~49. For the purpose of determining the transaction price, an entity (transfer recipient) shall assume that the ~~goods or services~~inflow will be transferred to the ~~purchaser or third-party beneficiary as promised~~ entity (transfer recipient) in accordance with the ~~existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified~~terms of the transaction.

Variable Consideration

~~49.~~50. If the ~~consideration promised in a binding arrangement~~inflow in the transaction includes a variable amount, an entity (transfer recipient) shall estimate the amount of ~~consideration~~ the

inflow to which the entity (transfer recipient) expects to collect from the transfer providerwill be entitled in exchange for transferring the promised goods or services to a purchaser or third-party beneficiary.

50.51. An amount of considerationof an inflow can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised considerationinflow can also vary if an entity's (tranfer recipient) entitlement to the consideration the inflow is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestonea taxable event occurs when an individual dies. However, the amount of the cash inflow is dependent on the size of the estate which may be determinable in a period subsequent to the reporting period.

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

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

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

52.53. An entity (transfer recipient) shall estimate an amount of variable consideration inflows by using either of the following methods, depending on which method the entity (transfer recipient) expects to better predict the amount of consideration inflows to which it will be entitledexpects to receive:

(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 inflows if an entity (transfer recipient) has a large number of binding arrangementstransactions 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 arrangementtransaction). The most likely amount may be an appropriate estimate of the amount of variable consideration inflows if the binding arrangementtransaction has only two possible outcomes (for example, an entity (transfer recipient) either achieves a performance bonus or does notcompletes construction of infrastructure on scheudle or not).

53.54. An entity (transfer recipient) shall apply one method consistently throughout the binding arrangementtransaction when estimating the effect of an uncertainty on an amount of variable consideration inflows to which the entity (transfer recipient) will be entitledexpects to receive. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity (transfer recipient) and shall identify a reasonable number of possible consideration amounts. The information that an entity (transfer recipient) uses to estimate the amount of variable consideration inflows would typically be similar to the information that the entity's (transfer recipient) management uses during the bid-and-proposal

process and in establishing prices for promised goods or servicesto estimate the amount receivable.

Refund Liabilities

54.55. 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 AG62–AG69.

Constraining Estimates of Variable Consideration

55.56. An entity (transfer recipient) shall include in the transaction price some or all of an amount of variable consideration estimated inmeasure revenue without performance obligations in accordance with paragraph 52 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration inflow is subsequently resolved.

56.57. 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 inflow is subsequently resolved, an entity (transfer recipient) shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of inflowconsideration is highly susceptible to factors outside the entity's (transfer recipient) 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 serviceinflow when it is non-cash.

(b) The uncertainty about the amount of consideration inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event. For example, the amount of inheritance tax receivable from a large estate may take years to determine after the death of the individual.

(c) The entity's (transfer recipient) experience (or other evidence) with similar types of binding arrangementstransactions 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 arrangementtransaction has a large number and broad range of possible consideration inflow amounts.

57.58. An entity shall apply paragraph AG112 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

~~58.~~59. At the end of each reporting period, an entity (transfer recipient) shall update the estimated transaction price (including updating its assessment of whether an estimate of variable ~~consideration~~ inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. ~~The entity shall account for changes in the transaction price in accordance with paragraphs 86–89.~~

~~*The Existence of a Significant Financing Component in the Binding Arrangement*~~

~~59.~~60. ~~In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the purchaser or the entity with a significant benefit of financing the transfer of goods or services to the purchaser or third-party beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement~~.

~~60.~~61. ~~The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the price that a purchaser would have paid for the promised goods or services if the purchaser had paid cash for those goods or services when (or as) they transfer to the purchaser or third-party beneficiary (i.e., the cash price). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following~~:

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

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

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

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

~~61.~~62. ~~Notwithstanding the assessment in paragraph 60, a binding arrangement with a purchaser would not have a significant financing component if any of the following factors exist:~~

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

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

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

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

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

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

Non-Cash Consideration

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

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

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

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

Consideration Payable to a Purchaser

69.70. Consideration payable to a purchaser includes cash amounts that an entity pays, or expects to pay, to the purchaser (or to other parties that purchase the entity's goods or services from the purchaser). Consideration payable to a purchaser also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the purchaser). An entity shall account for consideration payable to a purchaser as a reduction of the transaction price and, therefore, of revenue unless the payment to the purchaser is in exchange for a distinct good or

service (as described in paragraphs 25–29) that the purchaser transfers to the entity. If the consideration payable to a purchaser includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 49–57.

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

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

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

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

Appendix F – Summary of Revenue Measurement Requirements

	ED 70	ED 71	ED 71 (taxes)	ED 72 (Performance Obligation)	ED 72 (No Performance Obligation)
Revenue	Transaction Price **(ED 70.45)**	Transaction Price See Appendix A **(ED 71.50)**[12]	Transaction Price (best estimate) **(ED 71.81)**	Transaction Consideration (Transaction Price) **(ED 72.47)**	Carrying Amount of Resources Transferred **(ED 72.102)**
Receivables (Asset)	Transaction Price **(IPSAS 41.60)**[13] **Non-Contractual Receivables**[4]	Transaction Price See Appendix A **(ED 71.50)**	Transaction Price[14] (best estimate) **(ED 71.81)**	Transaction Consideration (Transaction Price) **(ED 72.47)**	Best Estimate of the Cost **(ED 72.103)**
Credit Losses[15]	Recognize Lifetime Expected Credit Loses Immediately **(IPSAS 41.87)**	Recognize Lifetime Expected Credit Loses Immediately **(IPSAS 41.87)**	Recognize Lifetime Expected Credit Loses Immediately **(IPSAS 41.87)**	-	-
Expenses paid through taxes	-	-	Tax Revenue Presented Gross Recognize amount as expense **(ED 71.68)**	-	-
Tax expenditure	-	-	Tax Revenue Presented Net Deduct expenditure from tax revenue **(ED 71.70)**	-	-

[12] ED 71.45 (previously IPSAS 23.48) requires *revenue from a transaction without a performance obligation shall be measured at the amount of the increase in net asset recognized by the entity (transfer recipient)*. When an entity recognizes an asset at fair value in accordance with ED 71.38, it also recognizes revenue equivalent to the amount of the asset, unless it also recognizes a liability.

[13] IPSAS 41.60 requires the recognition of short-term receivables at the original invoice amount. This practical expedient was included to establish a link with IPSAS 9, *Revenue from Exchange Transactions*. The FI Task Force agreed during the development of IPSAS 41 that this paragraph would require a consequential amendment when ED 70 becomes an IPSAS.

[14] Receivable is non-contractual therefore it is not in scope of IPSAS 41.

[15] IPSAS 41.3 indicates the impairment requirements of IPSAS 41 apply to transactions within the scope of IPSAS 9 and IPSAS 23 (it is presumed this will be amended to apply to transactions within the scope of ED 70 and ED 71).

	ED 70	ED 71	ED 71 (taxes)	ED 72 (Performance Obligation)	ED 72 (No Performance Obligation)
Subsequent Measurement of Receivable	Apply IPSAS 41 Likely amortized cost **(IPSAS 41.39)**	Amortized Cost Unless specific circumstances where fair value is more appropriate See Appendix B **(ED 71.69 – ED 71.71)**	Amortized Cost Unless specific circumstances where fair value is more appropriate See Appendix B **(ED 71.69 – ED 71.71)**	-	-
Discounting	Yes Time Value of Money **(ED 70.59)**	Yes Fair Value **(ED 71.38)**	Yes Fair Value **(ED 71.64)**	Yes Fair Value **(ED 71.38)**	Yes Fair Value **(ED 71.38)**
Uncertain Collection Amount (Long-Dated)	Limited to highly probable amounts **(ED 70.55)**	Limited to highly probable amounts See Appendix C **(ED 71.60)**	Limited to highly probable amounts See Appendix C **(ED 71.60)**	-	-
Disclosure	Face Value The amount not recognized as revenue because collection of a compelled transaction was not probable is disclosed **(ED 70.120(c))**	Face Value The amount not recognized as revenue because collection of an imposed transaction was not probable is disclosed See Appendix D **(ED 71.116(c))**	Face Value The amount not recognized as revenue because collection of an imposed transaction was not probable is disclosed See Appendix D **(ED 71.116(c))**	-	-

Non-Contractual Receivables

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In Period Review Instructions

Comment Deadline: November 18, 2019

Submit Comments to: Dave Warren (DaveWarren@ipsasb.org)

ED 70 – Revenue with Performance Obligations

REVIEW INSTRUCTIONS FOR ED 70

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 70:

   (a) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):

      (i) The IPSASB provisionally approved the authoritative text at its June 2019 meeting.

         a. Approved text has been shaded Grey.

         b. Reviewers are asked to perform a review if time permits.

      (ii) Paragraphs which have been added or amended since June 2019 are not shaded and where applicable, revisions are highlighted with tracked changes.

         a. Reviewers are asked to focus their attention on the following paragraphs, which have changed substantively since June 2019: 14, 112, 120, AG32, AG70, AG71, AG92, AG115, AG142, AG143, and Amendments to Other IPSAS specifically relating to IPSAS 32. (All other Amendments to Other IPSAS were approved by the IPSASB in their September 2018 meeting.)

   (b) Basis for Conclusions:

      (i) Basis for Conclusions paragraphs were developed to provide an overview of the revenue project and to explain key changes made when adapting IFRS 15 for use in the public sector.

      (ii) None of these paragraphs have been previously reviewed by the IPSASB. Reviewers are asked to review these paragraphs for consistency with the IPSASB's decisions from previous meetings.

   (c) Illustrative Examples:

      (i) The IPSASB delegated the review of the Illustrative Examples to its Revenue Task Force. This review was substantially completed by the Revenue Task Force in September 2019.

         a. Text reviewed by the Revenue Task Force has been shaded Green.

         b. Reviewers are asked to perform a review if time permits.

Exposure Draft 70
[Month] [Year]
Comments due: [Date]

IPSAS®

Proposed International Public Sector Accounting Standard®

Revenue with Performance Obligations

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.

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

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REQUEST FOR COMMENTS

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

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

This Exposure Draft forms part of the IPSASB's project on Revenue.

Objective of the Exposure Draft

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

Guide for Respondents

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

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

Specific Matter for Comment 1:

Do you agree with the IPSASB's proposals, and the rationale set out in paragraphs BC37 and BC46, for disclosure of information on transactions an entity was compelled to enter by legislation or other governmental policy decisions, as required in paragraph 120 of the Exposure Draft.

Specific Matter for Comment 2:

[TO BE DEVELOPED FOR THE DECEMBER 2019 IPSASB MEETING IN LIGHT OF COMMENTS ARISING FROM THE IN-PERIOD REVIEW]

…

EXPOSURE DRAFT 70, REVENUE WITH PERFORMANCE OBLIGATIONS

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Objective

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

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

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

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

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

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

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

   Paragraphs AG2-AG4 provide additional guidance on the Objective.

Scope

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

   (a) Revenue arising from other 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);

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

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

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

   (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*

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

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

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

Ventures, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits* and IPSAS 40, *Public Sector Combinations*;

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

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

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

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

(j) The extraction of mineral resources.

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

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

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

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

6. This [draft] Standard specifies the accounting for the incremental costs of obtaining a binding arrangement with 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 90–103). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement with a purchaser (or part of that binding arrangement) that is within the scope of this [draft] Standard.

Paragraphs AG5-AG6 provide additional guidance on the Scope.

Definitions

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

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement (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 liability is an entity's obligation to transfer goods or services to a purchaser or third-party beneficiary for which the entity has received consideration (or the amount is due) from the purchaser.

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

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

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

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

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

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

A purchaser is a party that pays for goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary (paragraph AG26 provides additional guidance). A customer is a type of a purchaser.

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

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

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between two other parties by receiving ~~assets,~~ goods, ~~or~~ services or other assets (paragraph AG23 provides additional guidance).

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

Step 1: Identifying the Binding Arrangement

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

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

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

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

   (d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG27-AG29 provide additional guidance); and

   (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary (paragraphs AG1-AG31 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the purchaser's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the binding arrangement if the consideration is variable because the entity may offer the purchaser a price concession (see paragraph 51).

   Paragraphs AG7-AG25 provide additional guidance on identifying the binding arrangement.

9. A binding arrangement 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 arrangement with a purchaser creates enforceable rights and obligations.

10. Some binding arrangements with purchasers may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this

[draft] Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

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

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

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

13. If a binding arrangement with a purchaser includes performance obligations to transfer goods or services to the purchaser or third-party 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.

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

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

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

Combination of Binding Arrangements

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

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

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

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

Modifications to a Binding Arrangement

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

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

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

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

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

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

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding

arrangement, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 21(b)) is the sum of:

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

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

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

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

Step 2: Identifying Performance Obligations

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

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

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

Paragraphs AG33-AG43 provide additional guidance on identifying performance obligations.

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

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

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

Promises in Binding Arrangements with Purchasers

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

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

Distinct Goods or Services

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

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

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

(c) Resale of rights to goods or services purchased by an entity (for example, an emission allowances resold by an entity acting as a principal, see paragraphs AG78–AG86);

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

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

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

(g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG78–AG86);

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

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

(j) Granting licenses (see paragraphs AG101–AG114); and

(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG87–AG91).

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

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

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

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

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

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

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

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

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

Step 5: Satisfaction of Performance Obligations

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

Paragraphs AG44-AG61 provides additional guidance on the satisfaction on performance obligations.

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

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

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

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

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

(d) Selling or exchanging the asset;

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

(f) Holding the asset.

33. When evaluating whether a purchaser obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs AG116–AG128).

Performance Obligations Satisfied Over Time

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

(a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG45–AG46);

(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 AG47); or

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

35. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AG48–AG50 provide guidance for assessing whether an asset has an alternative use to an entity.

36. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph 34(c). The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the binding arrangement is terminated by the purchaser or another party for reasons other than the entity's failure to perform as promised. Paragraphs AG51–AG55 provide guidance for assessing the existence and enforceability of a right to payment and whether an entity's right to payment would entitle the entity to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

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

(a) The entity has a present right to payment for the asset—if a purchaser is presently 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 from, 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 from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser 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 from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a purchaser or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the purchaser controls. Paragraphs AG116–AG128, AG129–AG130 and AG131–AG134 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(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 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 from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG135–AG138.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

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

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

Methods for Measuring Progress

40. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG56–AG61 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature

of the good or service that the entity promised to transfer to the purchaser or third-party beneficiary.

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

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

Reasonable Measures of Progress

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

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

Measurement

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

Step 3: Determining the Transaction Price

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

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

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

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

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

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

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

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

Variable Consideration

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

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

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

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

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

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

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

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

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

uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund Liabilities

54. An entity shall recognize a refund liability if the entity receives consideration from a purchaser and expects to refund some or all of that consideration to the purchaser. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs AG62–AG69.

Constraining Estimates of Variable Consideration

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

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

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

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

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

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

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

57. An entity shall apply paragraph AG112 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

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

The Existence of a Significant Financing Component in the Binding Arrangement

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

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

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

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

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

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

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

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

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

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

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

63. To meet the objective in paragraph 60 when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in

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

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

Non-Cash Consideration

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

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

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

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

Consideration Payable to a Purchaser

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

70. If consideration payable to a purchaser is a payment for a distinct good or service from the purchaser, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the

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

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

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

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

Step 4: Allocating the Transaction Price to Performance Obligations

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

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

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

Allocation Based on Stand-Alone Prices

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

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

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

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

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

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

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

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

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

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

Allocation of a Discount

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

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

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

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

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

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

Allocation of Variable Consideration

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

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

(b) One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 21(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

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

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

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

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

Changes in the Transaction Price

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

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

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

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

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

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

Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

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

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

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

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

Costs to Fulfill a Binding Arrangement

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

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

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

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

(c) The costs are expected to be recovered.

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

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

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

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

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

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

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

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

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

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

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

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

Amortization and Impairment

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

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

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

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

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

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

102. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 90 or 94, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 17 and IPSAS 31). After applying the impairment test in paragraph 100, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 90 or 94 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.

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

Presentation

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

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

106. If an entity performs by transferring goods or services to a purchaser or third-party beneficiary before the purchaser pays consideration or before payment is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration in exchange for goods

or services that the entity has transferred to a purchaser or third-party beneficiary. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41, *Financial Instruments*. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 113(b)).

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

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

Disclosure

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

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

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

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

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

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

~~111.~~112. In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45 to 47 of IPSAS 1, *Presentation of Financial Statements*, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

Binding Arrangements with Purchasers

~~112.~~113. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:

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

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

Disaggregation of Revenue

~~113.~~114. An entity shall disaggregate revenue recognized from binding arrangements with purchasers that include performance obligations into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG139–AG141 when selecting the categories to use to disaggregate revenue.

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

Binding Arrangement Balances

~~115.~~116. An entity shall disclose all of the following:

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

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

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

~~116.~~117. An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.

~~117.~~118. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:

(a) Changes due to public sector combinations;

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

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

(c) Impairment of a binding arrangement asset;

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

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

Performance Obligations

~~118.~~119. An entity shall disclose information about its performance obligations in binding arrangements with purchasers, including a description of all of the following:

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

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

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

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

~~(e)~~ Types of warranties and related obligations.

120. In the public sector, an entity may be compelled by legislation or other governmental policy decisions to satisfy a performance obligation regardless of a purchaser's ability to pay for the goods or services (see paragraph AG32). In addition to the information in paragraph 119, an entity shall disclose the following:

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

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

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

Transaction Price Allocated to the Remaining Performance Obligations

~~119.~~121. An entity shall disclose the following information about its remaining performance obligations:

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

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

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

(ii) By using qualitative information.

~~120.~~122. As a practical expedient, an entity need not disclose the information in paragraph 121 for a performance obligation if either of the following conditions is met:

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

(b) The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph AG58.

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

Significant Judgments in the Application of this [draft] Standard

~~122.~~124. An entity shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue from binding arrangements with purchasers. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

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

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

Determining the Timing of Satisfaction of Performance Obligations

~~123.~~125. For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

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

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

~~124.~~126. For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a purchaser obtains control of promised goods or services.

Determining the Transaction Price and the Amounts Allocated to Performance Obligations

~~125.~~127. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

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

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

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

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

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

~~126.~~128. An entity shall describe both of the following:

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

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

~~127.~~129. An entity shall disclose all of the following:

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

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

Practical Expedients

~~128.~~130. If an entity elects to use the practical expedient in either paragraph 62 (about the existence of a significant financing component) or paragraph 93 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

~~129.~~131. **An entity shall apply this [draft] Standard for annual financial statements beginning on or after MM DD, YYYY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) and [draft] IPSAS [X] (ED 72) at the same time.**

~~130.~~132. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

~~131.~~133. For the purposes of the transition requirements in paragraphs 134–140:

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

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

~~132.~~134. An entity shall apply this [draft] Standard using one of the following two methods:

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

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

~~133.~~135. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 134(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

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

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

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

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

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

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

(i) Identifying the satisfied and unsatisfied performance obligations;

(ii) Determining the transaction price; and

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

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

~~135.~~137. For any of the practical expedients in paragraph 136 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

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

~~136.~~138. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 134(b), the entity shall recognize the cumulative effect of initially applying this

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

~~137.~~139. An entity applying this [draft] Standard retrospectively in accordance with paragraph 134(b) may also use the practical expedient described in paragraph 136(c), either:

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

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

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

~~138.~~140. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 134(b):

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

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

Withdrawal of Other Standards

~~139.~~141. This [draft] Standard supersedes the following Standards:

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

(b) IPSAS 11, *Construction Contracts*.

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

Appendix A

Application Guidance

This Appendix is an integral part of the [draft] IPSAS [X] (ED 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-AG26);

(d) Identifying the Binding Arrangement (paragraphs AG27-AG31);

(e) Identifying Performance Obligations (paragraphs AG33-AG43);

(f) Performance Obligations Satisfied Over Time (paragraphs AG44-AG55);

(g) Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (paragraphs AG56-AG61);

(h) Sale with a Right of Return (paragraphs AG62-AG69);

~~(h)~~(i) Transactions with Components within the Scope of IPSAS [ED71#], *Revenue without Performance Obligations* (AG70-AG71);

~~(i)~~(j) Warranties (paragraphs AG72-AG77);

~~(j)~~(k) Principal Versus Agent Considerations (paragraphs AG78-AG86);

(l) Purchaser Options for Additional Goods or Services (paragraphs AG87-AG91);

~~(k)~~(m) Determination of Stand-alone Price (AG92);

~~(l)~~(n) Purchasers' Unexercised Rights (paragraphs AG93-AG96);

~~(m)~~(o) Non-refundable Upfront Fees (and Some Related Costs) (paragraphs AG97-AG100);

(p) Licensing (paragraphs AG101-AG114);

~~(n)~~(q) Licenses which do not Relate to the Use of Intellectual Property (paragraph AG115)

~~(o)~~(r) Repurchase Agreements (paragraphs AG116-AG128);

~~(p)~~(s) Consignment Arrangements (paragraphs AG129-AG130);

~~(q)~~(t) Bill-and-Hold Arrangements (paragraphs AG131-AG134);

~~(r)~~(u) Purchaser Acceptance (paragraphs AG135-AG138); and

(v) Disclosure of Disaggregated Revenue (paragraphs AG139-AG141).

~~(s)~~(w) Subsequent Measurement of Non-Contractual Receivables (paragraphs AG142-AG143)

Objective (see paragraph 1)

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

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

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

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

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

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

Scope (see paragraphs 3-6)

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

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

Definitions (see paragraph 7)

Binding Arrangements

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

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

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

(a) 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.

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.

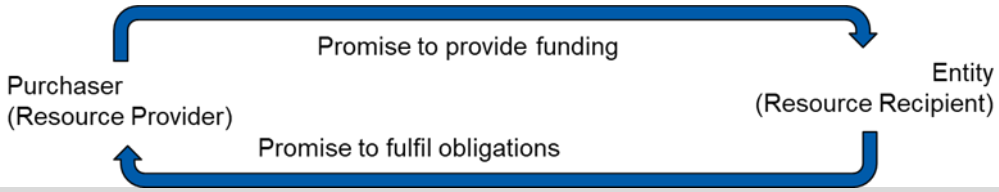
AG12. To be within the scope of this [draft] Standard the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG14 - AG25).

AG13. If an arrangement is not enforceable, 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

AG14. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the purchaser) must be able to enforce fulfillment of performance obligations (the promise to transfer specific goods and services) by the entity receiving the consideration.

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 revenue recognition model provided for in this Standard.

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.

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

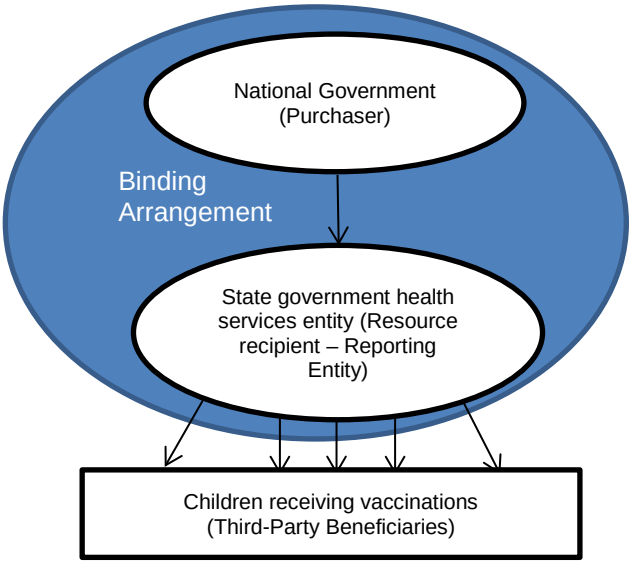
AG19. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard, however if the use of legislative authority 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 entity's binding arrangement. The purchaser must have the ability and authority to compel the entity to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

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 judgment based on the facts and circumstances. Key factors that may indicate the purchaser would reduce future funding in the event of a breach of promises made in a binding arrangement are the purchaser's ability to reduce future finding and its past history of doing so.

AG23. Three-party arrangements are common in the public sector – purchaser, resource recipient (reporting entity in this [draft] Standard) and third-party beneficiaries. It is important to recognize that in these three-party arrangements, the third-party beneficiaries do not have any rights to force the entity to deliver goods and services because they are not a party to the binding arrangement. However, for these three-party arrangements to be within the scope of this Standard the purchaser must have the ability to force the entity to deliver goods and services to third-party beneficiaries. In these three-party arrangements the resource recipient (reporting entity) is not an agent of the purchaser because the resource recipient gains control of the consideration from the purchaser and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram.



AG24. A statement of intent or public announcement by a purchaser (e.g. government) to spend money or deliver goods and services in a certain way is not an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a purchaser and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive obligation) under IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

AG25. 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

AG26. For public sector specific transactions, the purchaser is the party that pays consideration for the goods and services agreed to in a binding arrangement but is not necessarily the party that receives those goods and services. In the case of a three-party arrangement (discussed below), the purchaser has a binding arrangement with and pays consideration to the entity to deliver goods and services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over the age of 55, the central government is the purchaser and the citizens are the third-party beneficiary. The purchaser can enforce delivery of those goods and services or seek recourse from the entity if the promises in the binding arrangement are not fulfilled.

Recognition (see paragraphs 8-44)

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

Economic Substance

AG27. An entity shall determine whether a transaction has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if:

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

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

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

AG28. 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.

AG29. For the purposes of this [draft] Standard, economic substance includes commercial substance.

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

AG30. In some binding arrangements, entities are compelled by legislation to provide certain goods and services (such as water and electricity) to all citizens, regardless of whether the 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.

AG31. For goods and services provided to citizens in a binding arrangement in exchange for agreed amounts of consideration, where the collection of the consideration is not probable at the inception of the binding arrangement, an entity shall apply paragraphs 13 - 15 of this [draft] Standard.

~~AG31.~~AG32. This [draft] Standard typically measures revenue based on the transaction price an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, credits, price concessions, incentives, performance bonuses, penalties and similar items, but it is generally not reduced for expectation of bad debts. However, where an entity is providing goods or services and expects to accept a lower amount of consideration from the purchaser, the acceptance of a lower amount of consideration represents an implicit price concession (see paragraphs 46 and 51(b)).

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

~~AG32.~~AG33. This [draft] Standard requires revenue to be recognized as or when a performance obligation is fulfilled.

~~AG33.~~AG34. Paragraph 21 requires an entity to identify any performance obligations when a binding arrangement is entered into (Step 2 of the revenue recognition model). A performance

obligation is defined as a promise [by the entity] in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiaries either:

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

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

~~AG34.~~AG35. The key features of this definition of a performance obligation are that goods and services must be distinct and there must be a transfer of these goods and services to 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, the transaction is outside the scope of this [draft] Standard and would be accounted for under [draft] ED 71, *Revenue without Performance Obligations*.

~~AG35.~~AG36. In the public sector, identifying performance obligations may require significant judgment. A necessary condition for identifying a performance obligation is that the promise must be sufficiently specific to be able to determine when that performance obligation is fulfilled. In identifying performance obligations which are sufficiently specific an entity considers the following factors:

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

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

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

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

~~AG36.~~AG37. 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.

~~AG37.~~AG38. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Goods and Services

~~AG38.~~AG39. A good or service promised in a binding arrangement is distinct if the following two criteria are both met (see paragraph 26):

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

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

~~AG39.~~AG40. When identifying a performance obligation, not only does the promised transfer of the goods and services in a promise need to be separately identifiable but the promises in a binding arrangement must also be sufficiently specific from other promises in the same binding

arrangement to allow for the purchaser to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.

Transfer of Goods and Services

~~AG40.~~AG41. The second requirement of a performance obligation is that there must be a transfer of goods and services to the purchaser or third-party beneficiary. If there is no requirement to transfer control of goods or services, the transaction is outside the scope of this [draft] Standard and would be accounted for under [draft] ED 71, *Revenue without Performance Obligations*.

~~AG41.~~AG42. This [draft] Standard requires that revenue is recognized when an entity satisfies a performance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services.

~~AG42.~~AG43. 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 from, the asset; and

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

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

Performance Obligations Satisfied Over Time (see paragraph 34)

~~AG43.~~AG44. Paragraph 34 provides that a performance obligation is satisfied over time if one of the following criteria is met:

(a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG45–AG46);

(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 AG47); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG48–AG50) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG51–AG55).

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

~~AG44.~~AG45. For some types of performance obligations, the assessment of whether a purchaser receives the economic benefit or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

~~AG45.~~AG46. For other types of performance obligations, an entity may not be able to readily identify whether a purchaser simultaneously receives and consumes the economic benefits or service

potential from the entity's performance as the entity performs. In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfill the remaining performance obligation to the purchaser. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

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

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

Purchaser Controls the Asset as it is Created or Enhanced

~~AG46.~~AG47. In determining whether a purchaser controls an asset as it is created or enhanced in accordance with paragraph 34(b), an entity shall apply the requirements for control in paragraphs 30–33 and 37. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

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

~~AG47.~~AG48. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 34(c) and 35, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different purchaser. The possibility of the binding arrangement with the purchaser being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

~~AG48.~~AG49. A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a purchaser could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

~~AG49.~~AG50. A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a purchaser or are located in remote areas.

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

~~AG50.~~AG51. In accordance with paragraphs 34(c) and 36, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the purchaser or another party terminates the binding arrangement for reasons other than the entity's failure

to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the performance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled as promised, but an entity should be entitled to compensation for either of the following amounts:

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

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

~~AG51.~~AG52. An entity's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, an entity will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether it has a right to payment for performance completed to date, an entity shall consider whether it would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.

~~AG52.~~AG53. In some binding arrangements, a purchaser may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the purchaser might not have any right to terminate the binding arrangement. If a purchaser acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a purchaser fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser the goods or services promised in the binding arrangement and require the purchaser to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to payment for performance completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the purchaser to perform its obligations (which include paying the promised consideration).

~~AG53.~~AG54. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

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

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

(c) An entity's customary practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment in similar binding

arrangements, an entity would continue to have a right to payment to date if, in the binding arrangement with the purchaser, its right to payment for performance to date remains enforceable.

~~AG54.~~AG55. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a purchaser, the payment schedule might not necessarily provide evidence of the entity's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the purchaser is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

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

~~AG55.~~AG56. 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 AG57–AG59); and

(b) Input methods (see paragraphs AG60–AG61).

Output Methods

~~AG56.~~AG57. Output methods recognize revenue on the basis of direct measurements of the value to the purchaser of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the purchaser. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the purchaser that are not included in the measurement of the output.

~~AG57.~~AG58. As a practical expedient, if an entity has a right to consideration from a purchaser in an amount that corresponds directly with the value to the purchaser of the entity's performance completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

~~AG58.~~AG59. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

Input Methods

~~AG59.~~AG60. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labor hours

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

~~AG60.~~AG61. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a purchaser. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 38, do not depict the entity's performance in transferring control of goods or services to the purchaser. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

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

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

(i) The good is not distinct;

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

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

(iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG78–AG86).

Measurement (see paragraphs 45-85)

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

Sale with a Right of Return

~~AG61.~~AG62. In some binding arrangements, an entity transfers control of a product to a purchaser and also grants the purchaser the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

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

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

(c) Another product in exchange.

~~AG62.~~AG63. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

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

(b) A refund liability; and

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

~~AG63.~~AG64. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance obligation in addition to the obligation to provide a refund.

~~AG64.~~AG65. An entity shall apply the requirements in paragraphs 46–71 (including the requirements for constraining estimates of variable consideration in paragraphs 55–57) to determine the amount of consideration to which the entity expects to be entitled (i.e., excluding the products expected to be returned). For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue when it transfers products to purchasers or third-party beneficiaries but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognized.

~~AG65.~~AG66. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue).

~~AG66.~~AG67. An asset recognized for an entity's right to recover products from a purchaser on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.

~~AG67.~~AG68. 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.

AG69. 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 AG72–AG77.

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

AG70. In the public sector, a purchaser may enter into a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives. An entity shall allocate the transaction price to each performance obligation in the binding arrangement so that the allocation depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to a purchaser or third-

party beneficiary. This is based on the presumption that the transaction price is wholly related to the transfer of goods or services.

~~AG68.~~AG71. This presumption is rebutted when the terms of the binding arrangement specify that only a portion of the transaction price is to be returned to the purchaser in the event the entity does not deliver the promised goods or services. Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this [draft] Standard. The remainder of the transaction price shall be accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

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

Warranties

~~AG69.~~AG72. 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.

~~AG70.~~AG73. If a purchaser has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a performance obligation in accordance with paragraphs 21–29 and allocate a portion of the transaction price to that performance obligation in accordance with paragraphs 72–85.

~~AG71.~~AG74. 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.

~~AG72.~~AG75. 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.

~~AG73.~~AG76. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a performance obligation. Therefore, an entity shall allocate the transaction price to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

~~AG74.~~AG77. 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

~~AG75.~~AG78. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 26–29). If a binding arrangement with a purchaser includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

~~AG76.~~AG79. To determine the nature of its promise (as described in paragraph AG78), the entity shall:

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

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

~~AG77.~~AG80. 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.

~~AG78.~~AG81. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

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

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

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

~~AG79.~~AG82. 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.

~~AG80.~~AG83. 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.

~~AG81.~~AG84. 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 AG80) include, but are not limited to, the following:

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

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

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

~~AG82.~~AG85. The indicators in paragraph AG84 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.

~~AG83.~~AG86. 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

~~AG84.~~AG87. Purchaser options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, purchaser award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

~~AG85.~~AG88. 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.

~~AG86.~~AG89. If a purchaser has the option to acquire an additional good or service at a price that would reflect the stand-alone price for that good or service, that option does not provide the purchaser with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this [draft] Standard only when the purchaser exercises the option to purchase the additional goods or services.

~~AG87.~~AG90. Paragraph 73 requires an entity to allocate the transaction price to performance obligations on a relative stand-alone price basis. If the stand-alone price for a purchaser's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the purchaser would obtain when exercising the option, adjusted for both of the following:

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

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

AG91. If a purchaser has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Determination of Stand-alone Price

AG92. In the public sector, the determination of a stand-alone price for a performance obligation in accordance with paragraph 76 may be challenging in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone price is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable (see paragraph 78(b)). Where the stand-alone price of the goods or services cannot be estimated from market information, an estimate of replacement cost will be used by the entity.

Purchasers' Unexercised Rights

~~AG88.~~AG93. In accordance with paragraph 105, upon receipt of a prepayment from a purchaser, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that binding arrangement liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.

~~AG89.~~AG94. 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.

~~AG90.~~AG95. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the purchaser. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the purchaser exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 55–57 on constraining estimates of variable consideration.

~~AG91.~~AG96. 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)

~~AG92.~~AG97. In some binding arrangements, an entity charges a purchaser a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a health care membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

~~AG93.~~AG98. To identify performance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 24). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the purchaser the option to renew the binding arrangement and that option provides the purchaser with a material right as described in paragraph AG88.

~~AG94.~~AG99. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 21–29.

~~AG95.~~AG100. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 24). If those setup activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG61. That is because the costs of setup activities do not depict the transfer of services to the purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 94.

Other Specific Application Issues

Licensing

~~AG96.~~AG101. A license establishes a purchaser's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

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

(c) Franchises; and

(d) Patents, trademarks and copyrights.

~~AG97.~~AG102. In addition to a promise to grant a license (or licenses) to a purchaser, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph 23). As with other types of binding arrangements, when a binding arrangement with a purchaser includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 21–29 to identify each of the performance obligations in the binding arrangement.

~~AG98.~~AG103. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 25–29, an entity shall account for the promise to grant a license and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

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

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

~~AG99.~~AG104. If the license is not distinct, an entity shall apply paragraphs 30–37 to determine whether the performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

~~AG100.~~AG105. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate performance obligation, an entity shall determine whether the license transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the purchaser with either:

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

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

Determining the Nature of the Entity's Promise

~~AG101.~~AG106. 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 AG107 and AG108);

(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 AG106(a); and

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

~~AG102.~~AG107. 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.

~~AG103.~~AG108. An entity's activities significantly affect the intellectual property to which the purchaser has rights when either:

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

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

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

~~AG104.~~AG109. If the criteria in paragraph AG106 are met, an entity shall account for the promise to grant a license as a performance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 34(a)). An entity shall apply paragraphs 38–44 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

~~AG105.~~AG110. If the criteria in paragraph AG106 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the purchaser. This means that the purchaser can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 37 to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

~~AG106.~~AG111. 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

~~AG107.~~AG112. Notwithstanding the requirements in paragraphs 55–58, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

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

~~AG108.~~AG113. The requirement for a sales-based or usage-based royalty in paragraph AG112 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the purchaser would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG114. When the requirement in paragraph AG113 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG112. When the requirement in paragraph AG113 is not met, the requirements on variable consideration in paragraphs 49–58 apply to the sales-based or usage-based royalty.

Licenses which do not Relate to the Use of Intellectual Property

~~AG109.~~AG115. In the public sector, it is common for government entities to issue licenses which provide the license holder with the right to perform specific actions (e.g., a driver's license) or the right to own a specific item (e.g., a license to own a certain animal as a pet). The key issues relating to these licenses which do not relate to the use of intellectual property (Non-IP Licenses) are: 1) whether these licenses include a performance obligation, 2) identification of the distinct goods or services to be transferred to the purchaser or third-party beneficiary in the license arrangement, 3) determination of whether the license is distinct from other goods or services in the arrangement, and 4) whether revenue should be recognized at a point in time or over time. The general guidance over identification of performance obligations, and recognition of revenue at a point in time or over time are applicable to such Non-IP Licenses.

Repurchase Agreements

~~AG110.~~AG116. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the purchaser, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

~~AG111.~~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

~~AG112.~~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 from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

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

(b) A financing arrangement in accordance with paragraph AG120 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

~~AG113.~~AG119. When comparing the repurchase price with the price, an entity shall consider the time value of money.

~~AG114.~~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).

~~AG115.~~AG121. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

~~AG116.~~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 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.

~~AG117.~~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.

~~AG118.~~AG124. If the purchaser does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG62–AG69.

~~AG119.~~AG125. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG120.

~~AG120.~~AG126. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the purchaser does not have a significant economic incentive to exercise its right, then the entity shall account for the

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

agreement as if it were the sale of a product with a right of return as described in paragraphs AG62–AG69.

~~AG121.~~AG127. When comparing the repurchase price with the price, an entity shall consider the time value of money.

~~AG122.~~AG128. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

~~AG123.~~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.

~~AG124.~~AG130. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

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

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

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

Bill-and-Hold Arrangements

~~AG125.~~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.

~~AG126.~~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 37). For some binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a purchaser may obtain control of a product even though that product remains in an entity's physical possession. In that case, the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the purchaser over the purchaser's asset.

~~AG127.~~AG133. In addition to applying the requirements in paragraph 37, for a purchaser to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

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

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

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

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

~~AG128.~~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 21–29 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 72–85.

Purchaser Acceptance

~~AG129.~~AG135. In accordance with paragraph 37(e), a purchaser's acceptance of an asset may indicate that the purchaser has obtained control of the asset. Purchaser acceptance clauses may allow the purchaser to cancel a binding arrangement or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the purchaser obtains control of a good or service.

~~AG130.~~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.

~~AG131.~~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 from the good or service.

~~AG132.~~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 109-130)

Disclosure of Disaggregated Revenue

~~AG133.~~AG139. Paragraph 114 requires an entity to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of

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

~~AG134.~~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 press releases, annual reports or stakeholder presentations);

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

(c) Other information that is similar to the types of information identified in paragraph AG140(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

~~AG135.~~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);

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

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

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

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

Subsequent Measurement of Non-Contractual Receivables

AG142. A non-contractual receivable that will be settled by future cash flows shall be measured subsequently at amortized cost in accordance with paragraphs 69–70 of IPSAS 41 when:

(a) The entity's objective is to hold the non-contractual receivable in order to collect the cash flows; and

(b) The terms of the non-contractual receivable give rise on specified dates to cash flows that are solely payments relating to the revenue within the scope of this [draft] Standard.

~~AG136.~~AG143. Where a non-contractual receivable does not satisfy the requirements in paragraph AG142, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

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

…

Overall Considerations

…

Offsetting

…

50. ~~IPSAS 9, *Revenue from Exchange Transactions*,~~ [draft] 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

~~(b)~~(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.

Illustrative Financial Statement Structure

…

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

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

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

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

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

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

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

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

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

…

Amendments to IPSAS 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 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

…

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

…

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

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.

…

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

…

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) …

…

Effective Date

…

82J. 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 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~~ with performance obligations	X	X	X	X
X	Transfers from other governments	X	X	X	X
X	Other revenue	X	X	X	X
X	**Total revenue**	**X**	**X**	**X**	**X**
	Expenses				
(…)	…	(…)	(…)	(…)	(…)
(X)	**Total expenses**	**(X)**	**(X)**	**(X)**	**(X)**
X	Share of surplus of associates	X	X	X	X
X	**Surplus/(deficit) for the period**	**X**	**X**	**X**	**X**
	Attributable to:				
X	Owners of the controlling entity	X	X	X	X

[*] 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.

Actual 20XX-1	(in currency units)	**Actual 20XX**	**Final Budget 20XX**	**Original Budget 20XX**	**Difference: Original Budget and Actual*
X	Non-controlling interest	X	X	X	X
X		**X**	**X**	**X**	**X**

…

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

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

…

Scope

…

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

(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.

…

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

…

Scope

…

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

   (a) Intangible assets held by an entity for sale in the ~~ordinary~~ course of 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*.

…

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

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

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

This requirement applies to the cost measured at recognition (the cost incurred initially to acquire ~~in an exchange transaction~~ or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a revenue ~~non-exchange~~ transaction with non-cash consideration) and those incurred subsequently to add to, replace part of, or service it.

Retirements and Disposals

…

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

…

Application Guidance

…

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

Effective Date

…

132K. Paragraphs 6, 26, 113, 115 and AG6 were amended by [draft] 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 and AG56 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.

….

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

…

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

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

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

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

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

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

(b) Accumulated surpluses or deficits;

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

(d) Non-controlling interests.

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

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

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

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

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

BC35. When this Standard was issued, tThe IPSASB had agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third-

party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability. In developing [draft] IPSAS [X] (ED 70), the IPSASB noted that that principles in [draft] IPSAS [X] (ED 70) lead to the same conclusion: the grantor has received a service concession asset as consideration for granting a right (a license) to the operator to charge third-party users of the public service that it provides on the grantor's behalf during the term of the service concession arrangement.

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

BC37. When this Standard was issued, t~~T~~he revenue was ~~is~~ measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received could not ~~cannot~~ be measured reliably, the revenue was ~~is~~ measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. In developing [draft] IPSAS [X] (ED 70), the IPSASB concluded that the non-cash consideration received in a revenue transaction should be measured at fair value, and that when the fair value of non-cash consideration cannot be measured reliably, the consideration is measured indirectly by reference to the stand-alone price of the good or services promised to the purchaser or third-party beneficiary. This approach under [draft] IPSAS [X] (ED 70) is consistent with the conclusions reached when IPSAS 32 was issued.

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

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

Implementation Guidance

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

…

Accounting Framework for Service Concession Arrangements

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

…

WITHIN THE SCOPE OF THE STANDARD

- …
- Grantor recognizes related liability equal to the value of the SCA asset (~~IPSAS 9~~[draft] ED 70, *Revenue with Performance Obligations*, ~~IPSAS 28, IPSAS 29,~~ and IPSAS ~~30~~41)
- …

…

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

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

…

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 IPSAS~~s~~

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
…	…	…	…	…	…	…	…	…
~~IPSAS 9, *Revenue from Exchange Transactions*~~					~~√ To extent that 3 year relief period was adopted for assets and/or liabilities~~			
[draft] ED 70, *Revenue Transactions with Performance Obligations*	√				√ To extent that 3 year relief period was adopted for assets and/or liabilities			
…	…	…	…	…	…	…	…	…
~~IPSAS 11, *Construction Contracts*~~	~~√~~							
[draft] ED 70, *Revenue Transactions with Performance Obligations*	√							
…	…	…	…	…	…	…	…	…

Appendix

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

…

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
• …	…	…	…
~~IPSAS 9~~[draft] ED 70			

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
• Relief for recognition and/or measurement of revenue related to adoption of three year relief period for recognition and/or measurement of financial instruments			√
• …	…	…	…

…

Amendments to IPSAS 40, *Public Sector Combinations*

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

…

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

…

Subsequent Measurement and Accounting

…

Contingent Liabilities

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

(a) The amount that would be recognized in accordance with IPSAS 19; and

(b) The amount initially recognized less, if appropriate, the cumulative ~~amortization~~ amount of revenue recognized in accordance with ~~IPSAS 9, Revenue from Exchange~~ [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.

…

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, 45and 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.

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)).

…

(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 23~~ED 71). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual 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. 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:

…

Basis for Conclusions

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

Objective

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

Overview

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

BC3. In 2015, the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses.* In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate the guidance for non-exchange revenue transactions, in particular the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:

(a) Transactions with no performance obligations or stipulations. Revenue transactions with stipulations involve the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;

(b) Transactions with stipulations that do not meet all the requirements of IFRS 15; and

(c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.

Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and decided to develop accounting approaches based on whether the transaction is with or without performance obligations.

Transactions with no Performance Obligations or Stipulations

BC4. The IPSASB proposed that requirements for revenue transactions that do not contain any performance obligations or stipulations will be provided in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. The accounting for revenue transactions with no performance obligations or stipulations based on the IFRS 15 revenue recognition model (which involves the identification and fulfillment of performance obligations) would not be appropriate or practical to apply for these types of transactions. Most respondents to the CP agreed with the IPSASB.

Transactions with Stipulations that do not Meet all the Requirements of IFRS 15

BC5. The IPSASB considered the recognition of revenue transactions that contain stipulations which do not have all the characteristics of performance obligations as defined in IFRS 15. Ultimately, the Board decided such revenue transactions would be within the scope of [draft] IPSAS [X] (ED 71), and that [draft] IPSAS [X] (ED 70) would only apply to revenue transactions with all the characteristics of performance obligations. See paragraph BC31.

Transactions that Meet all the Requirements of IFRS 15

BC6. The public sector has revenue transactions that are akin to that of the private sector (for example revenue from providing goods or services). The IPSASB proposed that the standards-level requirements and guidance for revenue transactions in the public sector that have performance obligations as defined in IFRS 15 should be aligned with the requirements and guidance in IFRS 15.

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

BC8. Based on the above, the IPSASB decided that the new IPSAS should only be applied to revenue transactions with performance obligations as defined in IFRS 15. The scope of the new IPSAS was expanded to clarify that in the public sector, revenue transactions with performance obligations could involve the transfer of goods or services directly to the purchaser or third-party beneficiaries

Process

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

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

Alignment with IFRS 15

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

BC12. The IPSASB agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:

(a) Changes to the definitions and terminology in IFRS 15 to ensure consistency with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and to reflect the public sector;

(b) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;

(c) "Amendments to Other Standards" in IFRS 15 were replaced with "Amendments to Other IPSAS" to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;

(d) Deletion of illustrative examples which had limited or no applicability to the public sector; and

(e) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector specific examples to assist with the application of [draft] IPSAS [X] (ED 70).

Title of ED 70

BC13. The IPSASB modified the title of ED 70 from that used by IFRS 15 to, "*Revenue with Performance Obligations".* This title was chosen as the key criterion in deciding if a revenue transaction is within the scope of [draft] IPSAS [X] (ED 70) or [draft] IPSAS [X] (ED 71) is whether the arrangement includes performance obligations to transfer distinct goods or services to purchasers or third-party beneficiaries. Furthermore, this title corresponds with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, which is a proposed update of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Objective of [draft] IPSAS [X] (ED 70)

BC14. The IPSASB referred specifically to the five-step revenue recognition model in the authoritative section – "Objective" of [draft] IPSAS [X] (ED 70) to explain the core principle of the Standard. The IASB only mentioned the five-step revenue recognition model in the Basis for Conclusions of IFRS 15.

Scope (paragraphs 3 – 6)

BC15. The IPSASB aligned the objective and scope of [draft] IPSAS [X] (ED 70) to that of IFRS 15. [Draft] IPSAS [X] (ED 70) only applies to revenue from binding arrangements that include performance obligations to transfer distinct goods or services to purchasers or third-party beneficiaries. Non-binding revenue arrangements or other binding revenue arrangements that do not include performance obligations are to be accounted in accordance with the requirements of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations.*

Modification of IFRS 15 for Applicability to the Public Sector

BC16. The IPSASB modified the requirements of IFRS 15 to address public sector specific transactions. This included adding the concept of a binding arrangement (which is broader than a contract) to allow for jurisdictions where government and public sector entities cannot enter into legal contracts.

BC17. The IPSASB modified enforceability to include mechanisms that are outside the legal system.

BC18. Public sector transactions often involve three parties: the purchaser, which provides the consideration; the entity, which receives the consideration and is responsible for the delivery of goods or services; and the third-party beneficiary, which can be individuals or households, receiving those goods or services. The third-party beneficiary concept was introduced to [draft] IPSAS [X] (ED 70) so that the Standard would apply to these three-party transactions.

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

BC19. In the discussion of non-monetary exchanges in paragraph 3(f) of [draft] IPSAS [X] (ED 70), the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

Definitions (see paragraph 7)

General Alignment to Public Sector Terminology

BC20. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in [draft] IPSAS [X] (ED 70) to better align with terminology used in the public sector:

(a) All the references to “sell” or “sold” were replaced with the terms “provide” and “provided”, respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;

(b) “Stand-alone selling price” was replaced with “stand-alone price”;

(c) “Customary business practices” was replaced with an entity’s “customary practices”; and

(d) “Industry” was replaced with “sector”.

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC21 – BC29.

Binding Arrangements

BC21. The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of [draft] IPSAS [X] (ED 70), should encompass rights that arise from legislative or executive authority. To assist with the expanded concept of binding arrangements, application guidance was added to [draft] IPSAS [X] (ED 70) in paragraphs AG7 – AG13. As the concept of a contract may still be applicable in the public sector, the IPSASB also retained the definition of contract but specified that a contract is a type of binding arrangement.

Binding Arrangement Asset and Binding Arrangement Liability

BC22. As a consequence of replacing all references to “contract” with references to “binding arrangement”, the IPSASB also replaced the terms “contract asset” and “contract liability” with “binding arrangement asset” and “binding arrangement liability”, respectively.

Purchaser and Third-Party Beneficiary

BC23. The IPSASB replaced the term “customer” with “purchaser”, because the use of the term “purchaser” is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiaries. As the term “customer” may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC24. The IPSASB added the term “third-party beneficiary” following the term “purchaser” where appropriate to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term “third-party beneficiary” was defined so that its meaning can be consistently applied to [draft] IPSAS [X] (ED 70), as well as [draft] IPSAS [X] (ED 71) and [draft] IPSAS [X] (ED 72), *Transfer Expenses*.

Revenue

BC25. The IASB’s definition of revenue refers to income arising in the course of an entity’s ordinary activities, and income encompasses both revenues and gains. The IASB’s definition of customer also refers to obtaining goods or services that are an output of the entity’s ordinary activities. [Draft] IPSAS [X] (ED 70) does not refer to the term “income” and defines “revenue” to be consistent with IPSAS 1, *Presentation of Financial Statements*.

BC26. The IPSASB replaced the references to “ordinary activities” from the definition of “customer” and “revenue” with references to “activities” to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

Economic Substance

BC27. The IPSASB decided to replace the term “commercial substance” with “economic substance” which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term “commercial substance” was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG27 – AG29.

Combining Binding Arrangements

BC28. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB thought about replacing the term “commercial objective”, with “economic objective”, because the term “commercial objective” refers to the objective to make profit, whereas the primary objective of most public sector entities is to deliver services to the public. However, the IPSASB decided to simply replace the term “commercial objective” with “objective” because the term “economic objective” could have a different connotation for the public sector than the objective of delivering services to the public.

Economic Benefits and Service Potential from Distinct Goods or Services

BC29. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the ability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term “benefits” with “economic benefits or service potential” in [draft] IPSAS [X] (ED 70).

Retained Terminology and Definitions

BC30. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification as there was no public sector-specific reason to modify them:

(a) Goods or services;

(b) Consideration

(c) Exchange;

(d) Distinct;

(e) Fair value; and

(f) Transaction price.

BC31. The IPSASB discussed whether the definition of a performance obligation in IFRS 15, which includes the transfer of goods or services, should be modified to include some transactions that do not result in a transfer of a good or service (e.g. capital grants and some research grants). The IPSASB ultimately decided to retain the IFRS 15 definition of a performance obligation, and to address transactions that do not have performance obligations in [draft] IPSAS [X] (ED 71).

Recognition (see paragraphs 8 – 44)

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

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

BC32. Paragraph 8(e) is part of the criteria that must be met before an entity can apply the five-step revenue recognition model in [draft] IPSAS [X] (ED 70). Paragraph 8(e) requires the collection of consideration to which an entity is entitled to be probable.

BC33. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:

(a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and

(b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.

BC34. The IPSASB acknowledged that the probability criterion for certain binding arrangements with purchasers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of credit risk. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

BC35. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 8(e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 14 of [draft] IPSAS [X] (ED 70) are met.

BC36. The IPSASB decided to retain paragraph 8(e) because:

(a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 7 of [draft] IPSAS [X] (ED 70), paragraph 7 of IPSAS 1, *Presentation of Financial Statements*, and paragraph 5.29 of the Conceptual Framework; and

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

BC37. The IPSASB acknowledged that arrangements an entity is compelled to enter where the collectability of the consideration is in question could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable (see paragraph BC46).

BC38. To assist with the application of paragraph 8(e), the IPSASB added paragraph AG32, which states that when an entity is providing goods or services and expects to accept a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector.

Recognition of Consideration Received as Revenue when the Criteria in Paragraph 8 are not Met (Amendment of Paragraph 14)

BC39. In IFRS 15, if a transaction does not meet all the criteria for revenue recognition using the five-step revenue recognition model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:

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

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

BC40. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized, even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB amended paragraph 14(a) of [draft] IPSAS [X] (ED 70), so that an entity shall recognize the consideration received as revenue when the entity has transferred the goods or services to which the collected consideration relates, the entity has no obligation to transfer additional goods or services for the collected consideration, and the consideration received is non-refundable.

Measurement (see paragraphs 45 – 85)

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

BC41. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

(a) **Adjusted market assessment approach** - an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;

(b) **Expected cost plus a margin approach** - an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or

(c) **Residual approach** - an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

BC42. The IPSASB retained the methods of determining a stand-alone price in [draft] IPSAS [X] (ED 70) as they were appropriate for the transactions that would be covered in the [draft] Standard. However, the IPSASB replaced the term “expected cost plus a margin approach”, with the term “expected cost approach”, because certain goods or services are purchased or produced by public sector entities for no charge or for a nominal charge (‘cost recovery’ or ‘noncommercial basis’).

BC43. These methods are used to estimate the stand-alone price in order to allocate the transaction price to each performance obligation.

Disclosure (see paragraphs 109 – 130)

Approach to Modification of Disclosure Requirements

BC44. The IPSASB noted the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from binding arrangements with performance obligations. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in [draft] IPSAS [X] (ED 70), the IPSASB decided that there was no public sector-specific reason to remove any of the disclosures requirements from IFRS 15.

Materiality and Aggregation

BC45. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by [draft] IPSAS [X] (ED 70). Based on feedback from constituents on previously issued IPSAS, the Board noted that it would be helpful to include an explicit reference to the materiality and aggregation guidance from paragraphs 45 – 47 of IPSAS 1. This reference was added to paragraph 112 of [draft] IPSAS [X] (ED 70).

Transactions where an Entity is Compelled to Satisfy a Performance Obligation and Collection of Consideration is not Probable

BC46. In response to the concerns noted in paragraph BC37 regarding the potential loss of information on transactions where an entity is compelled to satisfy a performance obligation and where the collection of consideration is not probable, the IPSASB decided to require disclosure of the information in paragraph 120. The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions.

Application Guidance (see paragraphs AG1 – AG141)

Enforceability

BC47. The IPSASB noted that some binding arrangements are enforceable not by legal means but by equivalent enforcement mechanisms. Paragraphs AG20 – AG22 of [draft] IPSAS [X] (ED 70) discusses the equivalent enforcement mechanisms.

BC48. The CP, *Accounting for Revenue and Non-Exchange Expenses*, proposed the following as possible mechanisms by equivalent means:

(a) Legislation;

(b) Cabinet and ministerial decisions; and

(c) Reduction of future funding.

BC49. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, were subsets of legislation and may in some circumstances be valid enforcement mechanisms.

BC50. Respondents to the CP were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the purchaser had a present obligation to provide future funding in a binding arrangement. Without this binding arrangement and present obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.

BC51. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.

BC52. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.26 of the Conceptual Framework states “economic coercion, political necessity or other circumstances may give rise to situations where although the public sector entity is not legally 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”.

BC53. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of [draft] IPSAS [X] (ED 70) because a

non-legally binding obligation as cited in the Conceptual Framework is binding on the promisor only, whereas a binding arrangement as used in [draft] IPSAS [X] (ED 70) requires both parties to agree to the rights and obligations within that agreement.

BC54. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g. a general policy statement or announcement following a natural disaster) would create an enforceable binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, by the government.

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

BC55. The IPSASB discussed situations where a purchaser may enter a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives—e.g., providing a donation in addition to obtaining goods or services. The IPSASB noted that in most scenarios, the transaction price is wholly related to the transfer of goods or services, unless an entity can demonstrate that a portion of the amount is not refundable, even if the entity does not satisfy its performance obligation to deliver goods or services.

BC56. Based on the above discussions, the IPSASB decided to provide additional guidance in paragraphs AG70 and AG71 on when and how an entity should separate the consideration from such transactions into a transaction price for goods or services accounted for under [draft] IPSAS [X] (ED 70) and amounts to be accounted for under [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Determination of Stand-Alone Price

BC57. The determination of stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone price may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration. To address the issue, the IPSASB added guidance in paragraph AG92, which states that a stand-alone price in such situations shall be estimated based on the amount that would be paid in market terms to acquire the economic benefits or service potential of the goods or services. Where market information is not available, the stand-alone price is based on an estimate of replacement cost.

Licenses which do not Relate to the Use of Intellectual Property

BC58. The guidance on licenses in IFRS 15 is focused on licenses which grant the use of intellectual property. In the public sector, the term “license” is also used to describe non-IP licenses which grant the right to perform specific actions. The IPSASB noted that the key issues relating to these licenses are: 1) whether these licenses include a performance obligation, 2) identification of the distinct goods or services to be transferred to the purchaser or third-party beneficiary in the license arrangement, 3) determination of whether the license is distinct from other goods or services in the arrangement, and 4) whether revenue should be recognized at a point in time or over time. The IPSASB noted that the general revenue recognition principles for revenue transactions with performance obligations can be applied to revenue transactions involving licenses, based on the

facts and circumstances of the transaction. As such, the Board decided that detailed public sector-specific guidance would not be required and added limited application guidance on this issue in paragraph AG115. Illustrative Example 63 was also added to illustrate the key issues relating to these types of licenses.

Subsequent Measurement of Non-Contractual Receivables

BC59. IFRS 15 did not include specific guidance on the subsequent measurement of receivables, as IFRS 15 dealt with contractual agreements, and all receivables arising from such agreements would be within the scope of the financial instrument standards. Because [draft] IPSAS [X] (ED 70) applies more broadly to binding arrangements with performance obligations, it is possible for a receivable to fall outside the scope of IPSAS 41 if it arose from a non-contractual binding arrangement. Applying the measurement requirements of [draft] IPSAS [X] (ED 70) to such non-contractual binding arrangements would result in non-contractual receivables being initially measured at the transaction price. To address the lack of guidance for subsequent measurement of non-contractual receivables, the IPSASB added paragraphs AG142 – AG143, which are based on the subsequent measurement guidance for financial assets measured at amortized cost.

Illustrative Examples (see paragraphs IE1 – IE359)

Adaptation of the Illustrative Examples from IFRS 15 for use in [draft] IPSAS [X] (ED 70)

BC60. The IPSASB used the following approach to adapt the illustrative examples from IFRS 15 for use in [draft] IPSAS [X] (ED 70):

(a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;

(b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. (This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods or services in the telecommunications sector, “slotting fees” paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario); and

(c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, licenses, and the additional disclosure requirements added to [draft] IPSAS [X] (ED 70).

BC61. The IPSASB acknowledged that while the illustrative examples are not authoritative, an entity applying [draft] IPSAS [X] (ED 70) may find examples dealing with commercial transactions to be helpful if it is a party to such transactions. The IPSASB expects such situations to be rare, which led to the decision to remove the examples with limited applicability to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional illustrative examples of how an entity might apply the requirements of the Standard.

BC62. The IPSASB also considered incorporating an example on contract costs from IPSAS 11 into [draft] IPSAS [X] (ED 70). However, after considering the fact pattern in the example, the IPSASB decided that the example is more suitable for [draft] IPSAS [X] (ED 71), as the arrangement in the example did not contain performance obligations.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] Standard.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED70), Revenue with Performance Obligations. They illustrate aspects of IPSAS [X] but are not intended to provide interpretative guidance.

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in [draft] IPSAS [X] (ED 70) to particular aspects of a binding arrangement with a purchaser on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 70).

Scope

IE2. Examples 1 – 3 illustrate the requirements in paragraphs 7 and AG7 – AG13 of [draft] IPSAS [X] (ED 70) on the determination of whether a transaction arose from a binding arrangement and whether the binding arrangement includes performance obligations. Examples 2 – 3 also illustrate the requirement in paragraph 3(a) of [draft] IPSAS [X] (ED 70) on revenue transactions arising from binding arrangements that do not include performance obligations to transfer goods or services to the purchaser or third-party beneficiary. Example 3 illustrates the requirements in paragraphs AG70 – AG71 on revenue transactions with components that are within the scope of [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Example 1—Transaction Arose from an Arrangement that is Not Binding

Case A–No Performance Obligations, No Specified Time Period, and No Reporting to the Government

IE3. A social development entity receives funding of CU5[5] million from a government body to fund its employment programs. The agreement requires funding to be spent on programs with the goal of improving employment in the region. However, the agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the government will receive or verify information on how the funds were spent.

IE4. The social development entity concludes that the funding agreement is not a binding arrangement, as it does not confer enforceable rights and obligations on the parties to the arrangement in accordance with paragraphs 7 and AG7 of [draft] IPSAS [X] (ED 70). While there is a requirement to spend the CU5 million on employment programs, the social development entity is not obligated to use the funds in a specific way or within a specific time period. The government also has no realistic way to enforce the requirement to spend all of the funds. As a result, this arrangement is within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Case B–Specified Time Period to Spend Funds

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not result in performance obligations, as the agreement still does not require the transfer of distinct goods or services—i.e., the social development entity has complete

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

discretion over how and when within the five-year period to spend the funds. Furthermore, the government continues to not have any realistic way to enforce the requirement to spend all of the funds within five years. As a result, this arrangement is not binding and falls within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Case C–Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE6. The same facts as in Case B apply to Case C, except the agreement specifies how the social development entity is to report its spending to the government. The social development entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that could reasonably relate to improving employment in the region. Because the social development entity must spend the CU5 million within five years and report the details of its spending to the government, one could argue that the agreement is binding. However, it should be noted that the agreement does not contain performance obligations as the social development entity is not required to transfer any distinct goods or services under the general requirement to spend the funds on employment programs. As a result, this arrangement is within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Example 2—Transactions Arose from a Binding Arrangement Without Performance Obligations

IE7. A research lab receives a sum of CU10 million from a local government to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the research lab; if these milestones are not met, the research lab is required to return all, or a portion, of the funds to the government. Once the research is complete, there is no requirement in the agreement for the research lab to transfer the findings or any resulting intellectual property to the government. Based on these terms, the research lab has concluded that the agreement is a binding arrangement in accordance with paragraphs 7 and AG7 of [draft] IPSAS [X] (ED 70), as it must perform in accordance with the specified milestones in order to retain the funds.

IE8. The research lab considers whether this arrangement falls within the scope of this [draft] IPSAS [X] (ED 70) and notes that although it has agreed to perform a specified service (the research activities) that is distinct, the agreement does *not* include performance obligations, as defined, as there is no transfer of a good or service from the research lab to the local government (the purchaser) or any other third-party beneficiary. Therefore, the research lab concludes that this agreement is within the scope of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. (See Examples [X] at paragraphs [refer to specific paragraph #s] of [draft] IPSAS [X] (ED71).)

IE9. In contrast, if the above agreement had required the research lab to transfer the research results or the resulting intellectual property to the local government or a third-party beneficiary, the arrangement would be within the scope of [draft] IPSAS [X] (ED 70), as there would have been a transfer of a distinct good or service.

Example 3—Transactions with One Component which is Within the Scope of [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations, and Another Component which is Within the Scope of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations

IE10. A hospital foundation is raising funds by selling tickets to a networking dinner. The price of each ticket is CU300, and each ticket clearly states that if the networking dinner is cancelled, the foundation will only return CU100 to each ticket holder. Each ticket also clearly states that the

remaining CU200 of consideration is non-refundable. Other than the networking dinner, the foundation is not obligated to provide any other good or service to the ticketholders.

IE11. The foundation applies paragraphs AG70 – AG71 of [draft] IPSAS [X] (ED 70) and concludes that the disclosed cancellation terms provide evidence that each ticket consist of two components:

(a) CU100 of the transaction price relates to the promise to provide admission at the networking dinner to each ticket holder; and

(b) The remaining CU200, which is non-refundable, is considered a donation to the foundation, as the foundation is not obligated to provide any good or service in exchange for this amount.

IE12. Accordingly, CU100 of the consideration received for each ticket is within the scope of [draft] IPSAS [X] (ED 70), while the remaining CU200 per ticket is accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

Enforceability

IE13. Example 4 illustrates the requirements of paragraphs AG14 – AG25 of [draft] IPSAS [X] (ED 70) on enforceability by a mechanism other than legal means, i.e., by means other than compulsion by a jurisdiction's legal system to comply with the terms of the binding arrangement with purchasers.

Example 4—Enforceability by Mechanism other than Legal Means

IE14. Pursuant to a ministerial directive (see AG20 of [draft] IPSAS [X] (ED 70)), a state government signed a memorandum of understanding with the Department of Public Works (Public Works) to build a government office building. The memorandum is not legally binding on either of the parties, does not impose a refund obligation for Public Works in the event that it fails to perform under the terms of the memorandum, or refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the state government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the state government on its first month of work, and the state government has accepted the work performed to date.

IE15. Given the parties' reliance upon the memorandum of understanding, the fact that Public Works has performed construction services in accordance with the terms of the memorandum, and the fact that the work performed to date has been reported to and accepted by the state government, the memorandum has become enforceable based on the concept of promissory estoppel. That is, the state government has the right to enforce Public Works to fulfill the promises in the memorandum or seek redress should these promises are not fulfilled. As a result, the memorandum is considered enforceable despite it not being legally binding.

Step 1: Identifying the Binding Arrangement

IE16. Examples 5 – 8 illustrate the requirements in paragraphs 8 – 15 of [draft] IPSAS [X] (ED 70) on identifying the binding arrangement. In addition, the following requirements are illustrated in these examples:

(a) The interaction of paragraph 88 of [draft] IPSAS [X] (ED 70) with paragraphs 46 and 51 of [draft] IPSAS [X] (ED 70) on estimating variable consideration (Examples 6 – 7); and

(b) Paragraph AG112 of [draft] IPSAS [X] (ED 70) on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 8).

Example 5—Collectability of the Consideration

IE17. A local government has a portfolio of properties that are rented below-market prices to qualifying residents (Residents). After a number of years, a Resident is able to purchase the unit as part of a rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20-years, but once Residents have reached the age when they start to collect their superannuation, payments may cease depending on the Resident's level of income at that time. Upon the inception of the binding arrangement to purchase the unit, a Resident is required to pay a non-refundable deposit of CU5,000 and enter into a long-term financing agreement with the local government for the remaining balance of the promised consideration. In addition, the Resident obtains control of the building at the inception of the binding arrangement.

IE18. As part of this rent-to-own program, the local government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the local government, so the purchase price for the unit was CU250,000. The Resident pays the non-refundable deposit of CU5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the local government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.

IE19. In assessing whether the binding arrangement meets the criteria in paragraph 8 of [draft] IPSAS [X] (ED70), the local government concludes that the criterion in paragraph 8(e) of [draft] IPSAS [X] (ED 70) is not met for the full CU250,000 because it is not probable that it will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the local government observes that the Resident may only pay up to CU180,000 based on the terms of the program.

IE20. Because the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) are not met, the local government applies paragraphs 13 – 15 of [draft] IPSAS [X] (ED 70) to determine the accounting for the non-refundable deposit of CU5,000. The local government observes that the events described in paragraph 14(a) have occurred—that is, the local government has transferred control of the building to the Resident, and the local government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable. Consequently, in accordance with paragraph 14, the local government recognizes the non-refundable CU5,000 payment as revenue upon receipt.

Example 6—Consideration is not the Stated Price—Implicit Price Concession

IE21. A government pharmaceutical agency (the Agency) provides 1,000 units of a prescription drug to a hospital for promised consideration of CU1 million. The price of the drugs is regulated, so the Agency has no discretion on pricing. The Agency expects that it will not be able to collect from the hospital the full amount of the promised consideration due to a medical crisis occurring in the region which is diverting the hospital's resources.

IE22. When assessing whether the criterion in paragraph 8(e) of [draft] IPSAS [X] (ED 70) is met, the Agency also considers paragraphs 46 and 51(b) of [draft] IPSAS [X] (ED 70). Based on the assessment of the facts and circumstances, the Agency determines that it expects to provide a price concession and accept a lower amount of consideration from the hospital. Accordingly, the Agency concludes that the transaction price is not CU1 million and, therefore, the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE23. The Agency considers the hospital's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the hospital. Consequently, the Agency concludes that the criterion in paragraph 8(e) of [draft] IPSAS [X] (ED 70) is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the Agency concludes that the other criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction price of CU400,000, in accordance with the requirements in [draft] IPSAS [X] (ED 70).

Example 7—Implicit Price Concession

IE24. A government hospital provides medical services to an uninsured patient in the emergency room. The hospital is required by law to provide medical services to all emergency room patients. Because of the patient's condition upon arrival at the hospital, the hospital was compelled under legislation to provide the services immediately and, therefore, before the government hospital can determine whether the patient is committed to perform its obligations under the binding arrangement in exchange for the medical services provided. Consequently, the binding arrangement does not meet the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) and, in accordance with paragraph 13 of [draft] IPSAS [X] (ED 70), the hospital will continue to assess its conclusion based on updated facts and circumstances.

IE25. After providing services, the hospital obtains additional information about the patient including a review of the services provided, standard rates for such services and the patient's ability and intention to pay the hospital for the services provided. During the review, the hospital notes its standard rate for the services provided in the emergency room is CU10,000. The hospital also reviews the patient's information and to be consistent with its policies designates the patient to a purchaser class based on the hospital's assessment of the patient's ability and intention to pay.

IE26. Before reassessing whether the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) have been met, the hospital considers paragraphs 46 and 51(b) of [draft] IPSAS [X] (ED 70). Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the hospital concludes that the transaction price is not CU10,000 and, therefore, the promised consideration is variable. The hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The hospital estimates the variable consideration and determines that it expects to collect CU1,000.

IE27. In accordance with paragraph 8(e) of [draft] IPSAS [X] (ED 70), the hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the hospital concludes it is probable that the hospital will collect CU1,000 (which is the estimate of variable consideration). In addition, on the basis of an

assessment of the binding arrangement terms and other facts and circumstances, the hospital concludes that the other criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) are also met. Consequently, the hospital accounts for the binding arrangement with the patient, at a transaction price of CU1,000, in accordance with the requirements in [draft] IPSAS [X] (ED 70).

Example 8—Reassessing the Criteria for Identifying a Binding Arrangement

IE28. The Department of Natural Resources (the Department) issues a permit to mine minerals to a private sector mining company in exchange for a royalty based on the amount of minerals extracted. At the inception of the binding arrangement, the binding arrangement meets all the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) and the Department accounts for the binding arrangement with the mining company in accordance with the requirements in [draft] IPSAS [X] (ED 70). The Department recognizes revenue when the mining company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG112 of [draft] IPSAS [X] (ED 70).

IE29. Throughout the first year of the binding arrangement, the mining company provides quarterly extraction reports and pays within the agreed-upon period.

IE30. During the second year of the binding arrangement, the mining company continues to extract minerals from the property, but its financial condition declines. The mining company's current access to credit and available cash on hand are limited. The Department continues to recognize revenue on the basis of the mining company's extraction throughout the second year. The mining company pays the first quarter's royalties but does not pay the full royalty payments for the usage of the permit in Quarters 2–4. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

IE31. During the third year of the binding arrangement, the mining company continues to use the permit issued by the Department. However, the Department learns that the mining company has lost access to credit and its major customers, and thus the company's ability to pay significantly deteriorates. The Department therefore concludes that it is unlikely that the mining company will be able to make any further royalty payments for ongoing usage of the mining permit. As a result of this significant change in facts and circumstances, in accordance with paragraph 12 of [draft] IPSAS [X] (ED 70), the Department reassesses the criteria in paragraph 8 of [draft] IPSAS [X] (ED 70) and determines that they are not met because it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the mining company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

Modifications of a Binding Arrangement

IE32. Examples 9 – 13 illustrate the requirements in paragraphs 17 – 20 of [draft] IPSAS [X] (ED 70) on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 21 – 29 of [draft] IPSAS [X] (ED 70) on identifying performance obligations (Examples 11 – 12);

(b) Paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration (Examples 10 and 12 – 13);

(c) Paragraphs 86 – 89 of [draft] IPSAS [X] (ED 70) on changes in the transaction price (Example 10).

Example 9—Modification of a Binding Arrangement for Goods

IE33. An intergovernmental organization (the Organization) promises to provide 1.2 million text books to a national government for CU12 million (CU10 per text book). The text books are transferred to the government over a six-month period. The CU12 million is funded by the Organization's donors. The Organization transfers control of each text book at a point in time. After the Organization has transferred control of 600,000 text books to the government, the binding arrangement is modified to require the delivery of an additional 300,000 text books (a total of 1.5 million identical text books) to the government. The additional 300,000 text books were not included in the initial binding arrangement.

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

IE34. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 text books is an additional CU2.85 million or CU9.5 per text book. The pricing for the additional text books reflects the stand-alone price of the text books at the time of the modification to a binding arrangement and the additional text books are distinct (in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70)) from the original text books.

IE35. In accordance with paragraph 19 of [draft] IPSAS [X] (ED 70), the modification to a binding arrangement for the additional 300,000 text books is, in effect, a new and separate binding arrangement for future text books that does not affect the accounting for the existing binding arrangement. The Organization recognizes revenue of CU10 per text book for the 1.2 million text books in the original binding arrangement and CU9.5 per text book for the 300,000 text books in the new binding arrangement.

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

IE36. During the process of negotiating the purchase of an additional 300,000 text books, the parties initially agree on a price of CU8.0 per text book. However, the government and the donors discover that the initial 600,000 text books provided by the Organization contained minor misprints. The Organization promises a partial credit of CU1.5 per text book to compensate the donors for the poor quality of those text books. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 text books) into the amount that the Organization will require for the additional 300,000 text books. Consequently, the modification to a binding arrangement specifies that the price of the additional 300,000 text books is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 text books of CU2.4 million, or CU8.0 per text book, less the credit of CU900,000.

IE37. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction price and, therefore, as a reduction of revenue for the initial 600,000 text books transferred. In accounting for the sale of the additional 300,000 text books, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone price of the additional text books. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 19 of [draft] IPSAS [X] (ED 70) to be accounted for as a separate binding arrangement. Because the remaining text books to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 20(a) of

[draft] IPSAS [X] (ED 70) and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE38. Consequently, the amount recognized as revenue for each of the remaining text books is a blended price of CU9.33 {[(CU10 × 600,000 text books not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 text books to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining text books}.

Example 10—Change in the Transaction Price after a Modification of a Binding Arrangement

IE39. On July 1, 20X0, the Department of Defense (the Department) promises to transfer two distinct used military products, light-armored vehicles and spare parts, to a foreign government. The light-armored vehicle transfers to the foreign government at the inception of the binding arrangement and spare parts transfers on March 31, 20X1. The consideration promised by the foreign government includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction price because it concludes that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

IE40. The transaction price of CU1.2 million is allocated equally to the performance obligation for the light-armored vehicle and the performance obligation for spare parts. This is because both products have the same stand-alone prices and the variable consideration does not meet the criteria in paragraph 84 that requires allocation of the variable consideration to one but not both of the performance obligations.

IE41. When the light-armored vehicle transfers to the foreign government at the inception of the binding arrangement, the Department recognizes revenue of CU600,000.

IE42. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to the foreign government on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone price of ammunition. The stand-alone price of ammunition is the same as the stand-alone prices of the light-armored vehicle and spare parts.

IE43. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which had transferred to the foreign government before the modification, and the promised consideration for the ammunition does not represent its stand-alone price. Consequently, in accordance with paragraph 20(a) of [draft] IPSAS [X] (ED 70), the consideration to be allocated to the remaining performance obligations comprises the consideration that had been allocated to the performance obligation for spare parts (which is measured at an allocated transaction price amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction price for the modified binding arrangement is CU900 and that amount is allocated equally to the performance obligation for spare parts and the performance obligation for ammunition (i.e., CU450,000 is allocated to each performance obligation).

IE44. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the

change in estimate of the variable consideration can be included in the transaction price, because it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 20(a) of [draft] IPSAS [X] (ED 70), the increase in the transaction price of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 89 of [draft] IPSAS [X] (ED 70), the change in the transaction price is allocated to the performance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes revenue of CU20,000 for the light-armored vehicle in the period in which the change in the transaction price occurs. Because the spare parts had not transferred to the foreign government before the modification to a binding arrangement, the change in the transaction price that is attributable to spare parts is allocated to the remaining performance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 20(a) of [draft] IPSAS [X] (ED 70) if that amount of variable consideration had been estimated and included in the transaction price at the time of the modification of a binding arrangement.

IE45. The Department then also allocates the CU20,000 increase in the transaction price for the modified binding arrangement equally to the performance obligations for spare parts and ammunition. This is because the products have the same stand-alone prices and the variable consideration does not meet the criteria in paragraph 84 that require allocation of the variable consideration to one but not both of the performance obligations. Consequently, the amount of the transaction price allocated to the performance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE46. On March 31, 20X1, the spare parts are transferred to the foreign government and the Department recognizes revenue of CU460,000. On June 30, 20X1, the ammunition is transferred to the foreign government and the Department recognizes revenue of CU460,000.

Example 11—Modification of a Binding Arrangement of Services

IE47. A government shared facilities management services agency (the Agency) enters into a three-year binding arrangement with the Department of Education (the Department) to provide regular maintenance services to schools on a weekly basis. The Department promises to pay CU10 million per year. The stand-alone price of the maintenance services at the inception of the binding arrangement is also CU10 million per year. The Agency recognizes revenue of CU10 million per year during the first two years of providing services. At the end of the second year, the binding arrangement is modified and the fee for the third year is reduced due to budget cuts at the Department to CU8 million. In addition, the Department agrees to extend the binding arrangement for three additional years for consideration of CU20 million payable in three equal annual instalments of CU6,666,667 at the beginning of years 4, 5 and 6. After the modification, the binding arrangement has four years remaining in exchange for total consideration of CU28 million. The stand-alone price of the services at the beginning of the third year is CU8 million per year. The Agency's stand-alone price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone price of the multi-year binding arrangement (i.e., the stand-alone price is 4 years × CU8 million per year = CU32 million).

IE48. At the inception of the binding arrangement, the Agency assesses that each week of maintenance service is distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). Notwithstanding that each week of maintenance service is distinct, the Agency accounts for the binding arrangement for maintenance services as a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70). This is because the weekly maintenance services are a series of distinct services that are substantially the same and have the same pattern of transfer to the Department (the services are performed for the Department over time and use the same method to measure progress—that is, a time-based measure of progress).

IE49. At the date of the modification, the Agency assesses the remaining services to be provided and concludes that they are distinct. However, the amount of remaining consideration to be paid (CU28 million) does not reflect the stand-alone price of the services to be provided (CU32 million).

IE50. Consequently, the Agency accounts for the modification in accordance with paragraph 20(a) of [draft] IPSAS [X] (ED 70) as a termination of the original binding arrangement and the creation of a new binding arrangement with consideration of CU28 million for four years of maintenance service. The Agency recognizes revenue of CU7 million per year (CU28 million ÷ 4 years) as the maintenance services are provided over the remaining four years.

Example 12—Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

IE51. The Department of Public Works (Public Works) enters into a binding arrangement to construct a residential building for the Department of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. Public Works accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph 34(b) of [draft] IPSAS [X] (ED 70) because Housing controls the building during construction. At the inception of the of the binding arrangement, Public Works expects the following:

	CU
Transaction price	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE52. At the inception of the binding arrangement, Public Works excludes the CU2 million bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE53. Public Works determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation. By the end of the first year, Public Works has satisfied 60 percent of its performance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). Public Works reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 55–57 of [draft] IPSAS [X] (ED 70). Consequently, the cumulative revenue and costs recognized for the first year are as follows:

	CU	
Revenue	6,000,000	
Costs	5.400,000	
Surplus	600,000	

IE54. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU1.5 million and CU1.2 million, respectively. Total potential consideration after the modification is CU13.5 million (CU11.5 million fixed consideration + CU2 million completion bonus). In addition, the allowable time for achieving the CU2 million bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Public Works concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 55 of [draft] IPSAS [X] (ED 70) and includes the CU2 million in the transaction price. In assessing the modification to a binding arrangement, the entity evaluates paragraph 26(b) of [draft] IPSAS [X] (ED 70) and concludes (on the basis of the factors in paragraph 28 of [draft] IPSAS [X] (ED 70)) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single performance obligation.

IE55. Consequently, Public Works accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 20(b) of [draft] IPSAS [X] (ED 70)). Public Works updates its measure of progress and estimates that it has satisfied 52.9 percent of its performance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). Public Works recognizes additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction price) – CU6 million revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Example 13—Unapproved Change in Scope and Price

IE56. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Housing (Housing) to construct a building on land owned by Housing. The binding arrangement states that Housing will provide Public Works with access to the land within 30 days of inception of the binding arrangement. However, Public Works was not provided access until 120 days after inception of the binding arrangement because of storm damage to the site that occurred after inception of the binding arrangement. The binding arrangement specifically identifies any delay (including force majeure) in Public Works' access to purchaser-owned land as an event that entitles Public Works to compensation that is equal to actual costs incurred as a direct result of the delay. Public Works is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the binding arrangement and prepares a claim. Housing initially disagreed with the claim.

IE57. Public Works assesses the legal basis of the claim and determines, on the basis of the underlying terms of the binding arrangement, that it has enforceable rights. Consequently, it accounts for the claim as a modification to a binding arrangement in accordance with paragraphs 17 – 20 of [draft] IPSAS [X] (ED 70). The modification does not result in any additional goods and services being provided to Housing. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, Public Works accounts for the modification in accordance with paragraph 20(b) of [draft] IPSAS [X] (ED 70) by updating the transaction price and the measure of progress towards complete satisfaction of the performance obligation. Public Works considers the constraint on estimates of variable consideration in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) when estimating the transaction price.

Step 2: Identifying Performance Obligations

IE58. Examples 14 – 16 illustrate the requirements in paragraphs 21 – 29 of [draft] IPSAS [X] (ED 70) on identifying performance obligations.

Example 14—Goods and Services are not Distinct

Case A—Significant Integration Service

IE59. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Health to build a hospital. Public Works is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE60. The promised goods and services are capable of being distinct in accordance with paragraph 26(a) of [draft] IPSAS [X] (ED 70). That is, the Department of Health can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works, or comparable construction entities, regularly provides many of these goods and services separately to other purchasers. In addition, the Department of Health could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE61. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70) (on the basis of the factors in paragraph 28 of [draft] IPSAS [X] (ED 70)). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE62. Because both criteria in paragraph 26 of [draft] IPSAS [X] (ED 70) are not met, the goods and services are not distinct. Public Works accounts for all of the goods and services in the binding arrangement as a single performance obligation.

Case B—Significant Integration Service

IE63. The Department of Research Sciences (the Department) enters into a binding arrangement with a local government that will result in the delivery of multiple highly complex, specialized road trains. The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the local government, based on a custom design that is owned by the local government and that were developed under the

terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE64. The Department assesses the promises in the binding arrangement and determines that each of the promised road trains is capable of being distinct in accordance with paragraph 26(a) of [draft] IPSAS [X] (ED 70) because the local government can generate economic benefits or service potential from each road train on its own. This is because each road train can function independently of the other road trains.

IE65. The Department observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which the local government has entered into a binding arrangement in accordance with the local government's specifications. The Department considers that it is responsible for overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output) and, therefore, the road trains and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 26(b) and paragraph 28 of [draft] IPSAS [X] (ED 70). In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the local government. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is not met, the goods and services that will be provided by the Department are not separately identifiable and, therefore, are not distinct. The Department accounts for all of the goods and services promised in the binding arrangement as a single performance obligation.

Example 15—Determining whether Goods or Services are Distinct

Case A—Distinct Goods or Services

IE66. A government shared IT services agency (the Agency) enters into a binding arrangement with a state government (State Government) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The Agency provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE67. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Agency observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The State Government can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the Agency concludes that the State Government can generate economic benefits or service potential from each of the goods and

services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is met.

IE68. The Agency also considers the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70) and determines that the promise to transfer each good and service to the State Government is separately identifiable from each of the other promises (thus the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is met). In reaching this determination, the Agency considers that, although it integrates the software into the State Government's system, the installation services do not significantly affect the State Government's ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the State Government's ability to use and benefit or receive service potential from the software license during the license period. The Agency further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the Agency concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to fulfill its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE69. On the basis of this assessment, the Agency identifies four performance obligations in the binding arrangement for the following goods or services:

(a) The software license;

(b) An installation service;

(c) Software updates; and

(d) Technical support.

IE70. The Agency applies paragraphs 30 – 37 of [draft] IPSAS [X] (ED 70) to determine whether each of the performance obligations for the installation service, software updates and technical support are satisfied at a point in time or over time. The Agency also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG106 of [draft] IPSAS [X] (see Example 54 in paragraphs IE311 – IE312).

Case B—Significant Customization

IE71. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the State Government. The customized installation service can be provided by other entities.

IE72. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Agency first assesses whether the criterion in paragraph 26(a) has been met. For the same reasons as in Case A, the Agency determines that the software license, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph 26(b) has been met by evaluating the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70). The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed

software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the binding arrangement (see paragraph 28(a) of [draft] IPSAS [X] (ED 70)). The software is significantly modified and customized by the service (see paragraph 28(b) of [draft] IPSAS [X] (ED 70)). Consequently, the Agency determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is not met. Thus, the software license and the customized installation service are not distinct.

IE73. On the basis of the same analysis as in Case A, the Agency concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE74. On the basis of this assessment, the Agency identifies three performance obligations in the binding arrangement for the following goods or services:

(a) Software customization (which comprises the license for the software and the customized installation service);

(b) Software updates; and

(c) Technical support.

IE75. The Agency applies paragraphs 30 – 37 of [draft] IPSAS [X] (ED 70) to determine whether each performance obligation is satisfied at a point in time or over time.

Case C—Promises are Separately Identifiable (Installation)

IE76. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE77. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 26 of [draft] IPSAS [X] (ED 70) to determine whether each promised good or service is distinct. The Agency determines that the equipment and the installation each meet the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70). The State Government can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The State Government also can generate economic benefits or service potential from the installation services together with other resources that the State Government will already have obtained from the Agency (i.e., the equipment).

IE78. The Agency further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70)). The Agency considers the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70) in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 28 of [draft] IPSAS [X] (ED 70) contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to fulfill its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the State Government can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to fulfill its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE79. On the basis of this assessment, the Agency identifies two performance obligations in the contract for the following goods or services:

(i) The equipment; and

(ii) Installation services.

IE80. The Agency applies paragraphs 30 – 37 of [draft] IPSAS [X] (ED 70) to determine whether each performance obligation is satisfied at a point in time or over time.

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

IE81. Assume the same facts as in Case C, except that the State Government is required to use the Agency's installation services in the binding arrangement.

IE82. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to use the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70)) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable, i.e., they each meet the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70). The Agency's analysis in this regard is consistent with that in Case C.

Case E—Promises are Separately Identifiable (Consumables)

IE83. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE84. The Agency determines that the State Government can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 27 of [draft] IPSAS [X] (ED 70), because they

are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The State Government can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement together with the delivered equipment that is transferred to the State Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 26(a) of [draft] IPSAS [X] (ED 70).

IE85. The Agency determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70). In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the Agency considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the Agency concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the State Government can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to fulfill each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to fulfill its promise to transfer the equipment even if the State Government did not purchase any consumables and would be able to fulfill its promise to provide the consumables, even if the State Government acquired the equipment separately.

IE86. On the basis of this assessment, the Agency identifies two performance obligations in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) The consumables.

IE87. The Agency applies paragraphs 30 – 37 of [draft] IPSAS [X] to determine whether each performance obligation is satisfied at a point in time or over time.

Example 16—Explicit and Implicit Promises in a Binding Arrangement

IE88. A government entity (the Government) with the objective of providing broadband internet services to citizens in rural areas provides modem equipment to a telecommunications company (Telecom) (i.e., the Government's purchaser) who will then resell it to members of the public (i.e., the Telecom's customers) for below-market prices.

Case A—Explicit Promise of Service

IE89. In the binding arrangement with the Telecom, the Government promises to provide maintenance services for no additional consideration (i.e., 'free') to any end customer (i.e., members of the public) who purchased the modem from the Telecom. The Government outsources the performance of the maintenance services to the Telecom and pays the Telecom an agreed-upon amount for providing those services on the Government's behalf. If the end customer does not use the maintenance services, the Government is not obliged to pay the Telecom.

IE90. The binding arrangement with the Telecom includes two promised goods or services—(a) the modem and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the Government and the Telecom. The Government assesses whether each good or service is distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Government determines that both the product and the maintenance services meet the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70). The Government provides the modem on a stand-alone basis, which indicates that the Telecom can generate economic benefits or service potential from the modem on its own. The Telecom can generate economic benefits or service potential from the maintenance services together with a resource the Telecom already has obtained from the Government (i.e., the modem).

IE91. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph 26(b) of [draft] IPSAS [X] (ED 70) on the basis of the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70). The modem and the maintenance services are not inputs to a combined item in the binding arrangement. The Government is not providing a significant integration service because the presence of the modem and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the modem nor the services modify or customize the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to fulfill each of the promises in the binding arrangement independently of its efforts to fulfill the other (i.e., the Government would be able to transfer the modem even if the Telecom (through the individual end customers) declined maintenance services and would be able to provide maintenance services in relation to modems provided previously through other distributors). The Government also observes, in applying the principle in paragraph 28 of [draft] IPSAS [X] (ED 70), that the Government's promise to provide maintenance is not necessary for the product to continue to provide significant economic benefits or service potential to the Telecom. Consequently, the Government allocates a portion of the transaction price to each of the two performance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

Case B—Implicit Promise of Service

IE92. Continuing with the fact pattern in Case A, the Government has historically provided maintenance services for no additional consideration (i.e., 'free') to end customers in rural areas who purchased the Government's modem from the Telecom. The Government is now rolling out a similar program to urban areas. During the negotiations on this new urban program, the Government does not explicitly promise maintenance services during negotiations with the Telecom and the final binding arrangement between the Government and the Telecom does not specify terms or conditions for those services.

IE93. However, on the basis of its customary practice, the Government determines at the inception of the new binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the Telecom. That is, the Government's past practices of providing these services in rural areas create valid expectations of the Government's purchasers (i.e., the Telecom) in accordance with paragraph 23 of [draft] IPSAS [X] (ED 70). Consequently, the Government assesses whether the promise of maintenance services is a performance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate performance obligations.

Case C—Services are not a Promised Service

IE94. As a further variation from Cases A and B, in the binding arrangement with the Telecom, the Government does not promise to provide any maintenance services. In addition, the Government typically does not provide maintenance services and, therefore, the Government's customary practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The Government transfers control of the modem to the Telecom and, therefore, the binding arrangement is completed. However, before the sale to the Telecom's end customers, the Government makes an offer to provide maintenance services to any party that purchases the modem from the Telecom for no additional promised consideration.

IE95. The promise of maintenance is not included in the binding arrangement between the Government and the Telecom at the inception of the binding arrangement. That is, in accordance with paragraph 23 of [draft] IPSAS [X] (ED 70), the Government does not explicitly or implicitly promise to provide maintenance services to the Telecom or the end customers. Consequently, the Government does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

IE96. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with Telecom or other telecommunications companies, the Government would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Step 5: Performance Obligations Satisfied Over Time

IE97. Examples 17 – 21 illustrate the requirements in paragraphs 34 – 36 and AG44 – AG55 of [draft] IPSAS [X] (ED 70) on performance obligations satisfied over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 34(a) and AG45 – AG46 of [draft] IPSAS [X] (ED 70) on when a purchaser simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Examples 17 – 18);

(b) Paragraphs 34(c) and 35 – 36 and AG48 – AG55 of [draft] IPSAS [X] (ED 70) on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to payment for performance completed to date (Examples 18 – 21);

(c) Paragraph 37 of [draft] IPSAS [X] (ED 70) on performance obligations satisfied at a point in time (Example 21).

Example 17—Purchaser Simultaneously Receives and Consumes the Economic Benefits or Service Potential

IE98. A public payroll service center (the Payroll Center) enters into a binding arrangement to provide monthly payroll processing services to a local government's Department of Education (the Department) for one year.

IE99. The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70). The performance obligation is satisfied over time in accordance with paragraph 34(a) of [draft] IPSAS [X] because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll

Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. (The Payroll Center disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The Payroll Center recognizes revenue over time by measuring its progress towards complete satisfaction of that performance obligation in accordance with paragraphs 38 – 44 and AG56 – AG61 of [draft] IPSAS [X] (ED 70).

Example 18—Assessing Alternative Use and Right to Payment

IE100. The Office of the Auditor General (the Auditor) enters into a binding arrangement with a government agency (the Agency) to provide financial statement audit services that result in the Auditor providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Agency to compensate the Auditor for its costs incurred.

IE101. The Auditor considers the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) and the requirements in paragraphs AG45 and AG46 of [draft] IPSAS [X] (ED 70) to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its obligation and the Agency hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of the Auditor's performance only when the Agency receives the audit opinion. Consequently, the Auditor concludes that the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) is not met.

IE102. However, the Auditor's performance obligation meets the criterion in paragraph 34(c) of [draft] IPSAS [X] (ED 70) and is a performance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 35 and AG48 – AG50 of [draft] IPSAS [X] (ED 70), the development of the audit opinion does not create an asset with alternative use to the Auditor because the audit relates to facts and circumstances that are specific to the Agency. Therefore, the Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 36 and AG51 – AG55 of [draft] IPSAS [X] (ED 70), the Auditor has an enforceable right to payment for its performance completed to date for its costs.

IE103. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the performance obligation in accordance with paragraphs 38 – 44 and AG56–AG61 of [draft] IPSAS [X] (ED 70).

Example 19—Asset has no Alternative Use to the Entity

IE104. The Department of Space Sciences (the Department) enters into a binding arrangement with a government-owned telecommunications agency (the Telecom) to build a specialized satellite. The

Department builds satellites for various purchasers, such as other government agencies and departments, as well as commercial entities. The design and construction of each satellite differ substantially, on the basis of each purchaser's needs and the type of technology that is incorporated into the satellite.

IE105. At the inception of the binding arrangement, the Department assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph 34 of [draft] IPSAS [X] (ED 70).

IE106. As part of that assessment, the Department considers whether the satellite in its completed state will have an alternative use to the Department. Although the binding arrangement does not preclude the Department from directing the completed satellite to another purchaser, the Department would incur significant costs to rework the design and function of the satellite to direct it to another purchaser. Consequently, the satellite has no alternative use to the Department (see paragraphs 34(c), 35 and AG48–AG50 of [draft] IPSAS [X] (ED 70) because the purchaser-specific design of the satellite limits the entity's practical ability to readily direct the satellite to another purchaser.

IE107. For the Department's performance obligation to be satisfied over time when building the satellite, paragraph 34(c) of [draft] IPSAS [X] (ED 70) also requires the Department to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

Example 20—Enforceable Right to Payment for Performance Completed to Date

IE108. An intergovernmental organization (the Organization) enters into a binding arrangement with a donor to build a water tower for a local government. The payment schedule in the binding arrangement specifies that the donor must make an advance payment at the inception of the binding arrangement of 10 percent of the agreed cost of the water tower, regular payments throughout the construction period (amounting to 50 percent of the agreed cost of the water tower) and a final payment of 40 percent after it is completed and the water tower has passed the prescribed performance tests. The payments are non-refundable unless the Organization fails to perform as promised. If the donor terminates the binding arrangement, the Organization is entitled only to retain any progress payments received from the donor. The Organization has no further rights to compensation from the donor.

IE109. At the inception of the binding arrangement, the Organization assesses whether its performance obligation to build the water tower is a performance obligation satisfied over time in accordance with paragraph 34 of [draft] IPSAS [X] (ED 70).

IE110. As part of that assessment, the Organization considers whether it has an enforceable right to payment for performance completed to date in accordance with paragraphs 34(c), 36 and AG51 – AG55 of [draft] IPSAS [X] (ED 70) if the donor were to terminate the binding arrangement for reasons other than the Organization's failure to perform as promised. Even though the payments made by the donor are non-refundable, the cumulative amount of those payments is not expected, at all times throughout the binding arrangement, to at least correspond to the amount that would be necessary to compensate the Organization for performance completed to date. This is because at various times during construction the cumulative amount of consideration paid by the donor might be less than the price of the partially completed water tower at that time. Consequently, the Organization does not have a right to payment for performance completed to date.

IE111. Because the Organization does not have a right to payment for performance completed to date, the Organization's performance obligation is not satisfied over time in accordance with paragraph 34(c) of [draft] IPSAS [X] (ED 70). Accordingly, the Organization does not need to assess whether the equipment would have an alternative use to the Organization. The Organization also concludes that it does not meet the criteria in paragraph 34(a) or (b) of [draft] IPSAS [X] (ED 70) and thus, the entity accounts for the construction of the water tower as a performance obligation satisfied at a point in time in accordance with paragraph 37 of [draft] IPSAS [X] (ED 70).

Example 21—Assessing Whether a Performance Obligation is Satisfied at a Point in Time or Over Time

IE112. The Department of Public Works (Public Works) is developing multi-unit residential complexes to be sold to the Department of Housing (Housing) as well as a variety of commercial entities. Housing enters into a binding arrangement with Public Works for specified units that are under construction. These units have a similar floor plan and are of a similar size, but other attributes of the units are different (for example, the location of the units within the complex).

Case A—Entity does not have an Enforceable Right to Payment for Performance Completed to Date

IE113. Housing pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Public Works fails to complete construction of the units in accordance with the binding arrangement. The remainder of the binding arrangement price is payable on completion of the binding arrangement when Housing obtains physical possession of the units. If Housing defaults on the binding arrangement before completion of the units, Public Works only has the right to retain the deposit.

IE114. At the inception of the binding arrangement, Public Works applies paragraph 34(c) of [draft] IPSAS [X] (ED 70) to determine whether its promise to construct and transfer the units to Housing is a performance obligation satisfied over time. Public Works determines that it does not have an enforceable right to payment for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by Housing. Because Public Works does not have a right to payment for work completed to date, its performance obligation is not a performance obligation satisfied over time in accordance with paragraph 34(c) of [draft] IPSAS [X] (ED 70). Instead, Public Works accounts for the sale of the units as performance obligations satisfied at a point in time in accordance with paragraph 37 of [draft] IPSAS [X] (ED 70).

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

IE115. Housing pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the units. The binding arrangement has substantive terms that preclude Public Works from being able to direct the units to another purchaser. In addition, Housing does not have the right to terminate the binding arrangement unless Public Works fails to perform as promised. If Housing defaults on its obligations by failing to make the promised progress payments as and when they are due, Public Works would have a right to all of the consideration promised in the binding arrangement if it completes the construction of the units. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its obligations under the binding arrangement.

IE116. At the inception of the binding arrangement, Public Works applies paragraph 34(c) of [draft] IPSAS [X] (ED 70) to determine whether its promise to construct and transfer the units to Housing is a performance obligation satisfied over time. Public Works determines that the units it creates does not have an alternative use to Public Works because the binding arrangement

precludes Public Works from transferring the specified units to another purchaser. Public Works does not consider the possibility of a termination of a binding arrangement in assessing whether it is able to direct the units to another purchaser.

IE117. Public Works also has a right to payment for performance completed to date in accordance with paragraphs 36 and AG51 – AG55 of [draft] IPSAS [X] (ED 70). This is because if Housing were to default on its obligations, Public Works would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.

IE118. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to payment for performance completed to date. Consequently, the criteria in paragraph 34(c) of [draft] IPSAS [X] (ED 70) are met and Public Works has a performance obligation that it satisfies over time. To recognize revenue for that performance obligation satisfied over time, Public Works measures its progress towards complete satisfaction of its performance obligation in accordance with paragraphs 38–44 and AG56 – AG61 of [draft] IPSAS [X] (ED 70).

IE119. In the construction of a multi-unit residential complex, Public Works may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Public Works would account for each binding arrangement separately. However, depending on the nature of the construction, Public Work's performance in undertaking the initial construction work (i.e., the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its performance obligations in each binding arrangement.

Case C—Entity has an Enforceable Right to Payment for Performance Completed to Date, but Binding Arrangement can be Cancelled

IE120. The same facts as in Case B apply to Case C, except that in the event of a default by Housing, either Public Works can require Housing to perform as required under the binding arrangement or Public Works can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.

IE121. Notwithstanding that Public Works could cancel the binding arrangement (in which case Housing's obligation to Public Works would be limited to transferring control of the partially completed units to Public Works and paying the penalty prescribed), Public Works has a right to payment for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Public Works may choose to cancel the binding arrangement in the event Housing defaults on its obligations would not affect that assessment (see paragraph AG53 of [draft] IPSAS [X] (ED 70)), provided that Public Work's rights to require Housing to continue to perform as required under the binding arrangement (i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

IE122. Examples 22 – 23 illustrate the requirements in paragraphs 38 – 44 of [draft] IPSAS [X] (ED 70) on measuring progress towards complete satisfaction of a performance obligation satisfied over time. Example 23 also illustrates the requirements in paragraph AG61 of [draft] IPSAS [X] (ED 70) on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a performance obligation.

Example 22—Measuring Progress when Making Goods or Services Available

IE123. A local government owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.

IE124. The local government determines that its promise to the member of the public is to provide a service of making the pools available for the member of the public to use as and when the member of the public wishes. This is because the extent to which the member of the public uses the pools does not affect the amount of the remaining goods and services to which the member of the public is entitled. The local government concludes that the member of the public simultaneously receives and consumes the benefits or service potential of the local government's performance as it performs by making the pools available. Consequently, the local government's performance obligation is satisfied over time in accordance with paragraph 34(a) of [draft] IPSAS [X] (ED 70).

IE125. The local government also determines that the member of the public consumes benefits or service potential from the local government making the pools available throughout the year. (That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses it or not.) Consequently, the local government concludes that the best measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure and it recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Example 23—Uninstalled Materials

IE126. In November, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for total consideration of CU5 million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Public Works determines that it acts as a principal in accordance with paragraphs AG78 – AG86 of [draft] IPSAS [X] (ED 70), because it obtains control of the elevators before they are transferred to the other department.

IE127. A summary of the transaction price and expected costs is as follows:

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

IE128. Public Works uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. Public Works assesses whether the costs incurred to procure the elevators are proportionate to the Public Work's progress in satisfying the performance obligation, in accordance with paragraph AG61 of [draft] IPSAS [X] (ED 70). The other department obtains control of the elevators when they are delivered to the site in December 20X2,

although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the performance obligation (CU4 million). Public Works is not involved in designing or manufacturing the elevators.

IE129. Public Works concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, in accordance with paragraph AG61 of [draft] IPSAS [X] (ED 70), Public Works adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. Public Works recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE130. As of December 31, 20X2, Public Works observes that:

(a) Other costs incurred (excluding elevators) are CU500,000; and

(b) Performance is 20 percent complete (i.e., CU500,000 ÷ CU2,500,000).

IE131. Consequently, at December 31, 20X2, Public Works recognizes the following:

	CU	
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	200,000	

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

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Step 3: Determining the Transaction Price

Variable Consideration

IE132. Examples 24 – 25 illustrate the requirements in paragraphs 49 – 53 of [draft] IPSAS [X] (ED 70) on identifying variable consideration.

Example 24—Penalty Gives Rise to Variable Consideration

IE133. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Transportation (Transportation) to build a highway for CU10 million. In addition, the terms of the binding arrangement include a penalty of CU1 million if the construction is not completed within three months of a date specified in the binding arrangement.

IE134. Public Works concludes that the consideration promised in the binding arrangement includes a fixed amount of CU10 million and a variable amount of CU1 million (arising from the penalty).

IE135. Public Works estimates the variable consideration in accordance with paragraphs 49 – 53 of [draft] IPSAS [X] (ED 70) and considers the requirements in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration.

Example 25—Estimating Variable Consideration

IE136. The Department of Public Works (Public Works) enters into a binding arrangement with a Department of Transportation (Transportation) to build a bridge. The promise to transfer the bridge is a performance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE137. In addition, upon completion of the bridge, a third party will inspect the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE138. In determining the transaction price, Public Works prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 52 of [draft] IPSAS [X] (ED 70):

(a) Public Works decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

(b) Public Works decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

IE139. Public Works considers the requirements in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction price.

Constraining Estimates of Variable Consideration

IE140. Examples 26 – 28 illustrate the requirements in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining the estimates of variable consideration. In addition, the following requirements are illustrated in these examples:

(a) Paragraph 54 of [draft] IPSAS [X] (ED 70) on refund liabilities (Example 26);

(b) Paragraphs AG62 – AG69 of [draft] IPSAS [X] (ED 70) on sales with a right of return (Example 26); and

(c) paragraphs 83 – 85 of [draft] IPSAS [X] (ED 70) on allocating variable consideration to performance obligations (Example 28).

Example 26—Right of Return

IE141. A public sector procurement agency (the Agency) enters into 100 binding arrangements with other governmental departments. Each binding arrangement relates to the sale of one electric vehicle for CU50,000 (100 total vehicles × CU50,000 = CU5 million total consideration). Cash is received when control of a vehicle transfers. The Agency's customary practice is to allow a department to return Vehicles within 30 days and receive a full refund. The Agency's cost of each product is CU45,000.

IE142. The Agency applies the requirements in [draft] IPSAS [X] (ED 70) to the portfolio of 100 binding arrangements because it reasonably expects that, in accordance with paragraph 3, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual binding arrangements within the portfolio.

IE143. Because the binding arrangement allows the departments to return the vehicles, the consideration received from each department is variable. To estimate the variable consideration to which the Agency will be entitled, the Agency decides to use the expected value method (see paragraph 52(a) of [draft] IPSAS [X] (ED 70) because it is the method that the Agency expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the Agency estimates that 97 products will not be returned.

IE144. The Agency also considers the requirements in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of CU4.85 million (CU50,000 × 97 products not expected to be returned) can be included in the transaction price. The agency considers the factors in paragraph 56 of [draft] IPSAS [X] (ED 70) and determines that although the returns are outside the Agency's influence, it has significant experience in estimating returns for these vehicles from the departments. In addition, the uncertainty will be resolved within a short time frame (i.e., the 30-day return period). Thus, the Agency concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognized (i.e., CU4.85 million) will not occur as the uncertainty is resolved (i.e., over the return period).

IE145. The Agency estimates that the costs of recovering the products will be immaterial and expects that the returned vehicles can be resold at a surplus.

IE146. Upon transfer of control of the 100 vehicles, the Agency does not recognize revenue for the three vehicles that it expects to be returned. Consequently, in accordance with paragraphs 54 and AG63 of [draft] IPSAS [X] (ED 70), the Agency recognizes the following:

(a) Revenue of CU4.85 million (CU50,000 × 97 products not expected to be returned);

(b) A refund liability of CU150,000 (CU50,000 refund × 3 products expected to be returned); and

(c) An asset of CU135,000 (CU45,000 × 3 products for its right to recover vehicles from departments on settling the refund liability).

Example 27—Volume Discount Incentive

IE147. A hospital enters into a binding arrangement with a correctional facility on January 1, 20X8 to provide medical examinations for inmates for CU100 per examination. If more than 10,000 examinations are performed in a calendar year, the binding arrangement specifies that the price is retrospectively reduced to CU90 per examination. Consequently, the consideration in the binding arrangement is variable.

IE148. For the first quarter ended March 31, 20X8, the hospital performs 750 examinations. The hospital estimates that the facility will not exceed the 10,000-examination threshold required for the volume discount in the calendar year.

IE149. The hospital considers the requirements in paragraphs 55 – 57 of binding arrangement on constraining estimates of variable consideration, including the factors in paragraph 56 of [draft] IPSAS [X] (ED 70). The hospital determines that it has significant experience with the

medical examination and with the usage pattern of the correctional facility. Thus, the hospital concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognized (i.e., CU100 per examination) will not occur when the uncertainty is resolved (i.e., when the total amount of purchases is known). Consequently, the hospital recognizes revenue of CU75,000 (750 examinations × CU100 per examination) for the quarter ended March 31, 20X8.

IE150. In May, 20X8, the correctional facility is consolidated with another facility and in the second quarter ended June 30, 20X8 the hospital performs an additional 5,000 examinations. In the light of the new fact, the hospital estimates that the correctional facility's purchases will exceed the 10,000-examination threshold for the calendar year and therefore it will be required to retrospectively reduce the price per examination to CU90.

IE151. Consequently, the hospital recognizes revenue of CU442,500 for the quarter ended June 30, 20X8. That amount is calculated from CU450,000 for providing 5,000 examinations (5,000 examinations × CU90 per examination) less the change in transaction price of CU7,500 (750 examinations × CU10 price reduction) for the reduction of revenue relating to units provided for the quarter ended March 31, 20X8 (see paragraphs 86 and 87 of [draft] IPSAS [X] (ED 70).

Example 28—Management Fees Subject to the Constraint

IE152. On January 1, 20X8, a government shared services agency (the Agency) enters into a binding arrangement with other government departments to manage a fund holding the departments' employee pension plan assets for five years. The Agency receives a 0.2% quarterly management fee based on the departments' assets under management at the end of each quarter. In addition, the Agency receives a performance-based incentive fee of 5 percent of the fund's return in excess of the return of an observable market index over the five-year period. Consequently, both the management fee and the performance fee in the binding arrangement are variable consideration.

IE153. The Agency accounts for the services as a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70), because it is providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the departments over time and use the same method to measure progress—that is, a time-based measure of progress).

IE154. At the inception of the binding arrangement, the Agency considers the requirements in paragraphs 49 – 53 of [draft] IPSAS [X] (ED 70) on estimating variable consideration and the requirements in paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration, including the factors in paragraph 56 of [draft] IPSAS [X] (ED 70). The Agency observes that the promised consideration is dependent on the market and thus is highly susceptible to factors outside the Agency's influence. In addition, the incentive fee has a large number and a broad range of possible consideration amounts. The Agency also observes that although it has experience with similar binding arrangements, that experience is of little predictive value in determining the future performance of the market. Therefore, at the inception of the binding arrangement, the Agency cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognized would not occur if the Agency included its estimate of the management fee or the incentive fee in the transaction price.

IE155. At each reporting date, the Agency updates its estimate of the transaction price. Consequently, at the end of each quarter, the Agency concludes that it can include in the transaction price the actual amount of the quarterly management fee because the uncertainty is resolved. However, the Agency

concludes that it cannot include its estimate of the incentive fee in the transaction price at those dates. This is because there has not been a change in its assessment from inception of the binding arrangement—the variability of the fee based on the market index indicates that the Agency cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognized would not occur if the Agency included its estimate of the incentive fee in the transaction price. At March 31, 20X8, the client's assets under management are CU100 million. Therefore, the resulting quarterly management fee and the transaction price is CU200,000.

IE156. At the end of each quarter, the Agency allocates the quarterly management fee to the distinct services provided during the quarter in accordance with paragraphs 83(b) and 84 of [draft] IPSAS [X] (ED 70). This is because the fee relates specifically to the Agency's efforts to transfer the services for that quarter, which are distinct from the services provided in other quarters, and the resulting allocation will be consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70). Consequently, the Agency recognizes CU200,000 as revenue for the quarter ended March 31, 20X8. The Agency would not include the incentive fee included in its estimate of the transaction price until it can conclude that a significant reversal in the cumulative amount of revenue recognized would not occur. Based on the facts and circumstances, the Agency estimates that inclusion of the incentive fee is only likely to occur at the end of the five-year period.

The Existence of a Significant Financing Component in the Binding Arrangement

IE157. Examples 29 – 33 illustrate the requirements in paragraphs 59 – 64 of [draft] IPSAS [X] (ED 70) on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 29:

(a) Paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration; and

(b) Paragraphs AG62 – AG69 of [draft] IPSAS [X] (ED 70) on sales with a right of return.

Example 29—Significant Financing Component and Right of Return

IE158. A government entity (the Government) provides trains to a public sector subway operator (the Operator) for CU121 million that is payable 24 months after delivery. The Operator obtains control of the trains at the inception of the binding arrangement. The binding arrangement permits the Operator to return the trains within 90 days. The trains are new and the Government has no relevant historical evidence of returns or other available market evidence.

IE159. The cash price of the trains is CU100 million, which represents the amount that the Operator would pay upon delivery for the same trains provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The Government's cost of the trains is CU80 million.

IE160. The Government does not recognize revenue when control of the product transfers to the Operator. This is because the existence of the right of return and the lack of relevant historical evidence means that the Government cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur in accordance with paragraphs 55 – 57 of [draft] IPSAS [X] (ED 70). Consequently, revenue is recognized after three months when the right of return lapses.

IE161. The binding arrangement includes a significant financing component, in accordance with paragraphs 59 – 61 of [draft] IPSAS [X] (ED 70). This is evident from the difference between the

amount of promised consideration of CU121 million and the cash price of CU100 million at the date that the goods are transferred to the Operator.

IE162. The binding arrangement includes an implicit interest rate of 10 percent (i.e., the interest rate that over 24 months discounts the promised consideration of CU121 million to the cash price of CU100 million). The Government evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the Government and the Operator at the inception of the binding arrangement. The following journal entries illustrate how the Government accounts for this binding arrangement in accordance with paragraphs AG62 – AG69 of [draft] IPSAS [X] (ED 70):

(a) When the trains are transferred to the Operator, in accordance with paragraph AG63 of [draft] IPSAS [X] (ED 70):

Asset for right to recover trains to be returned	CU80 million[6]		
Inventory	CU80 million		

(b) During the three-month right of return period, no interest is recognized in accordance with paragraph 64 of [draft] IPSAS [X] (ED 70) because no binding arrangement asset or receivable has been recognized.

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[7]		
Revenue	CU100 million		
Cost of sales	CU80 million		
Asset for trains to be returned	CU80 million		

IE163. Until the Government receives the cash payment from the Operator, interest revenue would be recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 30—Withheld Payments on a Long-Term Binding Arrangement

IE164. A Department of Public Works (Public Works) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Public Works throughout the binding arrangement term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Public Works' expected performance. The binding arrangement provides that a specified percentage of

6 This example does not consider expected costs to recover the asset.

7 The receivable recognized would be measured in accordance with IPSAS 41 This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

each milestone payment is to be withheld (i.e., retained) by the purchaser throughout the arrangement and paid to Public Works only when the building is complete.

IE165. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Public Works' performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 61(c) of [draft] IPSAS [X] (ED 70). The withholding of a specified percentage of each milestone payment is intended to protect the purchaser from Public Works failing to adequately complete its obligations under the binding arrangement.

Example 31—Determining the Discount Rate

IE166. The Department of Communications and Information (the Department) enters into a binding arrangement with a foreign government to provide broadband internet equipment. Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU100 million plus a five percent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU1.89 million.

Case A— Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE167. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

IE168. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Department accounts for the receivable in accordance with IPSAS 41.

Case B— Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE169. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE170. In accordance with paragraph 63 of [draft] IPSAS [X] (ED 70), the Department determines the transaction price by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Department determines that the transaction price is CU84.8 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Department recognizes revenue and a loan receivable for that amount. The Department accounts for the loan receivable in accordance with IPSAS 41.

Example 32—Advance Payment and Assessment of Discount Rate

IE171. A national government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the national government plans to sell the surplus vehicles. To achieve this objective, the national government enters into a binding arrangement with a state government to provide the surplus vehicles in two years (i.e., the performance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5 million in two years when the state government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The state government elects to pay CU4 million when the binding arrangement is signed.

IE172. The national government concludes that the binding arrangement contains a significant financing component because of the length of time between when the state government pays for the vehicle and when the national government transfers the vehicles to the state government, as well as the prevailing interest rates in the market.

IE173. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the national government determines that, in accordance with paragraph 63 of [draft] IPSAS [X] (ED 70), the rate that should be used in adjusting the promised consideration is six percent, which is the national government's incremental borrowing rate.

IE174. The following journal entries illustrate how the national government would account for the significant financing component:

(a) Recognize a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million		
Binding arrangement liability		CU4 million	

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the national government adjusts the promised amount of consideration (in accordance with paragraph 64 of [draft] IPSAS [X] (ED 70) and accretes the binding arrangement liability by recognizing interest on CU4 million at six percent for two years:

Interest expense	CU494,000[8]		
Binding arrangement liability		CU494,000	

(c) Recognize revenue for the transfer of the vehicles:

8 CU494 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

Binding arrangement liability		CU4,494,000	
	Revenue	CU4,494,000	

Example 33—Advance Payment

IE175. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. There is a Government entity that provides the specialist telecommunications services and the Telecom enters into a binding arrangement with the Government entity to provide maintenance and repair services for three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

IE176. To determine whether there is a significant financing component in the binding arrangement, the Government entity considers the nature of the service being offered and the purpose of the payment terms. The Government entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government entity with costs for which it cannot earn revenue.

IE177. In assessing the requirements in paragraph 61(c) of [draft] IPSAS [X] (ED 70), the Government entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government entity. The Government entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government entity concludes that there is not a significant financing component.

Non-Cash Consideration

IE178. Example 34 illustrates the requirements in paragraphs 65 – 68 of [draft] IPSAS [X] (ED 70) on non-cash consideration, as well as the requirements in paragraph 21 of [draft] IPSAS [X] (ED 70) on identifying performance obligations.

Example 34—Entitlement to Non-Cash Consideration

IE179. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single performance obligation in accordance with paragraph 21(b) of [draft] IPSAS [X] (ED 70). This is because the Broadcaster is providing a series of distinct production services that are substantially the same and have the same pattern of transfer (the production services transfer to the Media Company over time and use the same method to measure progress—that is, a time-based measure of progress).

IE180. In exchange for the production services, the Media Company promises to provide the Broadcaster with the right to air one of the Media Company's popular sports programs once per week of production services.

IE181. The Broadcaster measures its progress towards complete satisfaction of the performance obligation as each week of production service is complete. To determine the transaction price (and the amount of revenue to be recognized), the Broadcaster first considers the fair value of the right to air the popular sports program. However, as the right to air the program is not typically sold by the Media Company or traded in the market, the Broadcaster concludes that it cannot reasonably estimate the fair value of the non-cash consideration. As a result, the Broadcaster measures the transaction price indirectly by reference to the stand-alone price of the production services promised to the Media Company.

Step 4: Allocating the Transaction price to Performance Obligations

IE182. Examples 35 – 37 illustrate the requirements in paragraphs 72 – 85 of [draft] IPSAS [X] (ED 70) on allocating the transaction price to performance obligations. In addition, the following requirements are illustrated in Example 37:

(a) Paragraph 52 of [draft] IPSAS [X] (ED 70) on variable consideration; and

(b) Paragraph AG114 of [draft] IPSAS [X] (ED 70) on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property.

Example 35—Allocation Methodology

IE183. A Department of Defense (the Department) enters into a binding arrangement with another country to provide a fighter jet, specialized spare parts, and a specialized engine in exchange for CU100 million. The Department will satisfy the performance obligations for the jet, spare parts, and engine at different points in time. The Department can provide fighter jets separately and therefore the stand-alone price is directly observable. The stand-alone prices of the specialized spare parts and specialized engine are not directly observable.

IE184. Because the stand-alone prices for the specialized spare parts and specialized engine are not directly observable, the Department must estimate them. To estimate the stand-alone prices, the Department uses the adjusted market assessment approach for the specialized spare parts and the expected cost approach for the specialized engines. In making those estimates, the Department maximizes the use of observable inputs (in accordance with paragraph 77 of [draft] IPSAS [X] (ED 70)). The Department estimates the stand-alone prices as follows:

Product	**Stand-alone price**	**Method**
	CU (millions)	
Fighter jet	90	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 70))
Spare parts	10	Adjusted market assessment approach (see paragraph 78(a) of [draft] IPSAS [X] (ED 70))
Specialized Engine	20	Expected cost approach (see paragraph 78(b) of [draft] IPSAS [X] (ED 70))
Total	120	

IE185. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone prices (CU120 million) exceeds the promised consideration (CU100 million). The Department considers whether it has observable evidence about the performance obligation to which the entire discount belongs (in accordance with paragraph 81 of [draft] IPSAS [X] (ED 70)) and concludes that it does not. Consequently, in accordance with paragraphs 75 and 80 of [draft] IPSAS [X] (ED 70), the discount is allocated proportionately across the fighter jet, spare parts and the specialized engine. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated Transaction Price	
	CU (millions)	
Fighter jet	75	(CU90 ÷ CU120 × CU100)
Spare parts	8	(CU10 ÷ CU120 × CU100)
Engine	17	(CU20 ÷ CU120 × CU100)
Total	100	

Example 36—Allocating a Discount

IE186. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone prices:

Product	Stand-alone price	
	CU	
Supply A	40	
Supply B	55	
Supply C	45	
Total	140	

IE187. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A—Allocating a Discount to One or More Performance Obligations

IE188. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the performance obligations for each of the supplies at different points in time.

IE189. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone price method (in accordance with paragraph 80 of [draft] IPSAS [X] (ED 70). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph 81 of [draft] IPSAS [X] (ED 70).

IE190. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single performance

obligation. That is, the Agency could allocate CU60 of the transaction price to the single performance obligation and recognize revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE191. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Supply B (stand-alone price of CU55) and Supply C (stand-alone price of CU45) as follows:

Product	Allocated transaction price	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone price × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone price × CU60)
Total	60	

Case B—Residual Approach is Appropriate

IE192. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone price for Supply D is highly variable (see paragraph 78(c) of [draft] IPSAS [X] (ED 70)) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone price of Supply D using the residual approach.

IE193. Before estimating the stand-alone price of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other performance obligations in the binding arrangement in accordance with paragraphs 81 and 82 of [draft] IPSAS [X] (ED 70).

IE194. As in Case A, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph 81 of [draft] IPSAS [X] (ED 70). Using the residual approach, the Agency estimates the stand-alone price of Supply D to be CU30 as follows:

Product	Stand-alone price	Method
	CU	
Supply A	40	Directly observable (see paragraph 76 of [draft] IPSAS [X] (ED 70))
Supplies B and C	60	Directly observable with discount (see paragraph 81 of [draft] IPSAS [X] (ED 70))
Supply D	30	Residual approach (see paragraph 78(c) of [draft] IPSAS [X] (ED 70))
Total	130	

IE195. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70) and the requirements in paragraph 77 of [draft] IPSAS [X] (ED 70).

Case C—Residual Approach is Inappropriate

IE196. The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone price of CU5 for Supply D (CU105 transaction price less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its performance obligation to transfer Supply D, because CU5 does not approximate the stand-alone price of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone price of Supply D using another suitable method. The Agency allocates the transaction price of CU105 to Supplies A, B, C and D using the relative stand-alone prices of those products in accordance with paragraphs 72 – 79 of [draft] IPSAS [X] (ED 70).

Example 37—Allocation of Variable Consideration

IE197. A government-owned university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two performance obligations each satisfied at a point in time. The stand-alone prices of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A—Variable Consideration Allocated Entirely to One Performance Obligation

IE198. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 52 of [draft] IPSAS [X] (ED 70)).

IE199. To allocate the transaction price, the University considers the criteria in paragraph 84 of [draft] IPSAS [X] (ED 70) and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 84 of [draft] IPSAS [X] (ED 70) are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the performance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amounts of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70). This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone price of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone price of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 85 of [draft] IPSAS [X] (ED 70). This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating

to Formulation Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 72 of [draft] IPSAS [X] (ED 70).

IE200. The University transfers Formulation Y at inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognize revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG112 of [draft] IPSAS [X] (ED 70), the University recognizes revenue for the sales-based royalty when those subsequent sales occur.

IE201. When Formulation X is transferred, the University recognizes as revenue the CU800,000 allocated to Formulation X.

Case B—Variable Consideration Allocated on the Basis of Stand-Alone Prices

IE202. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 52 of [draft] IPSAS [X] (ED 70).

IE203. To allocate the transaction price, the University applies the criteria in paragraph 84 of [draft] IPSAS [X] (ED 70) to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction price. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone prices of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 75 – 79 of [draft] IPSAS [X] (ED 70).

IE204. The University allocates the transaction price of CU300,000 to Formulations X and Y on the basis of relative stand-alone prices of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone price basis. However, in accordance with paragraph AG112 of [draft] IPSAS [X] (ED 70), when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

IE205. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognizes as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognizes as revenue the CU133 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE206. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG112 of [draft] IPSAS [X] (ED 70), the University recognizes as revenue the CU111,000 (CU1,000,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied performance obligation). The University recognizes a binding arrangement liability for the CU89,000 (CU800,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation X. This is because

although the subsequent sale by the Company has occurred, the performance obligation to which the royalty has been allocated has not been satisfied until Formulation X is transferred three months later.

Three-party Arrangements and the Determination of Stand-Alone Price

IE207. Example 38 illustrates the application of paragraph AG23 of [draft] IPSAS [X] (ED 70) on the provision of goods or services to third-party beneficiaries and paragraph AG92 of [draft] IPSAS [X] (ED 70) on the determination of the stand-alone price of these goods or services.

Example 38—Provision of Vaccines to Third-Party Beneficiaries

IE208. A health clinic receives CU100,000 from the government to provide free vaccinations. The government requires the clinic to provide 150 doses of vaccine A, which is a vaccine that the clinic had previously provided for a stand-alone price of CU500 per dose. In addition, the clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE209. The clinic concludes that this arrangement would be in the scope of [draft] IPSAS [X] (ED 70), as the government, which is acting as the purchaser, is paying the clinic to provide vaccination services to the local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG23 of [draft] IPSAS [X] (ED 70).

IE210. In determining the stand-alone price for each dose of the vaccines, the clinic estimates that each dose of vaccine A has a stand-alone price of CU500, based on the historical stand-alone price for that vaccine. For vaccine B, the clinic applies paragraph AG92 of [draft] IPSAS [X] (ED 70) and estimates that the stand-alone price of each dose is CU100, based on the estimated replacement cost for the health clinic to acquire each vaccination, as well as the labor costs for the administration of vaccines.

IE211. Using the stand-alone price of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction price to the two vaccines:

Total Stand-alone Price of All Performance Obligations:

Vaccine A: CU500 stand-alone price × 150 doses = CU75,000

Vaccine B: CU100 stand-alone price (based on replacement cost + labor) × 350 doses = CU35,000

Total Stand-alone Price: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Price of CU100,000 to the Two Vaccines:

Vaccine A: CU100,000 × CU75,000 ÷ CU110,000 = CU68,182 or CU454.55 per dose

Vaccine B: CU100,000 × CU35,000 ÷ CU110,000 = CU31,818 or CU90.91 per dose

IE212. Based on the above, the clinic would recognize revenue using the above allocated transaction prices and the number of vaccines used.

Binding Arrangement Costs

IE213. Example 39 illustrates the requirements in paragraphs 94 – 97 of [draft] IPSAS [X] (ED 70) on costs to fulfil a binding arrangement and paragraphs 98 – 103 of [draft] IPSAS [X] (ED 70) on amortization and impairment of binding arrangement costs.

Example 39—Costs that Give Rise to an Asset

IE214. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a local government's information technology data center for five years. The binding arrangement is renewable for subsequent one-year periods. The average purchaser term is seven years. Before providing the services, the Agency designs and builds a technology platform for the Agency's internal use that interfaces with the local government's systems. That platform is not transferred to the local government but will be used to deliver services to the local government.

Costs to Fulfill a Binding Arrangement

IE215. 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

IE216. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with IPSAS 17, *Property, Plant and Equipment*.

(b) Software costs—accounted for in accordance with IPSAS 31, *Intangible Assets*.

(c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 94 of [draft] IPSAS [X] (ED 70) to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data center.

IE217. In addition to the initial costs to set up the technology platform, the Agency also assigns two employees who are primarily responsible for providing the service to the local government. Although the costs for these two employees are incurred as part of providing the service to the local government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 94(b) of [draft] IPSAS [X] (ED 70)). Therefore, the costs do not meet the criteria in paragraph 94 of [draft] IPSAS [X] (ED 70) and cannot be recognized as an asset using [draft] IPSAS [X] (ED 70). In accordance with paragraph 97, the Agency recognizes the payroll expense for these two employees when incurred.

Presentation

Illustrating the Consequences of Applying Paragraphs 55-57, 59-64 and AG62-AG69 of [draft] IPSAS [X]

IE218. Examples 40 – 42 illustrate the requirements in paragraphs 104 – 108 of [draft] IPSAS [X] (ED 70) on the presentation of binding arrangement balances.

Example 40— Binding Arrangement Liability and Receivable

Case A—Cancellable Binding Arrangement

IE219. On January 1, 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on March 31, 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance on January 31, 20X9. The government entity pays the consideration on March 1, 20X9. The Agency transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000		
Binding Arrangement Liability		CU1,000	

(b) The Agency satisfies the performance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000		
Revenue		CU1,000	

Case B—Non-Cancellable Binding Arrangement

IE220. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a receivable because it has an unconditional right to consideration):

Receivable	CU1,000		
Binding Arrangement Liability		CU1,000	

(a) The Agency receives the cash on March 1, 20X9:

Cash	CU1,000		
Receivable		CU1,000	

(b) The Agency satisfies the performance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000		
Revenue		CU1,000	

IE221. If the Agency issued the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 41—Binding Arrangement Asset Recognized for the Entity's Performance

IE222. On January 1, 20X8, a government shared services IT agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a small government department (the Department) in exchange for CU1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE223. The Agency identifies the promises to transfer the software and complete the configuration as separate performance obligations and allocates CU400,000 to the performance obligation to transfer the software and CU600,000 to the performance obligation to complete the configuration on the basis of their relative stand-alone prices. The Agency recognizes revenue for each respective performance obligation when control of the product transfers to the Department.

IE224. The Agency satisfies the performance obligation to transfer the software:

Binding Arrangement Asset	CU400,000		
Revenue		CU400,000	

IE225. The Agency satisfies the performance obligation to configure the software and to recognize the unconditional right to consideration:

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

Example 42—Receivable Recognized for the Entity's Performance

IE226. A government hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on January 1, 20X9 to perform medical examinations for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE227. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE228. In determining the transaction price, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates that the transaction price is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognizes the following:

Receivable	CU15,000[9]	
Revenue		CU12,500[10]
Refund liability (binding arrangement liability)		CU2,500

IE229. The refund liability (see paragraph 54 of [draft] IPSAS [X] (ED 70)) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction price).

Disclosure

IE230. Example 43 illustrates the requirements in paragraphs 114 – 115 and AG139 – AG141 of [draft] IPSAS [X] (ED 70) on the disaggregation of revenue disclosure. Examples 44 – 45 illustrate the requirements in paragraphs 121 – 123 of [draft] IPSAS [X] (ED 70) for the disclosure of transaction price allocated to the remaining performance obligations. In addition, the following requirements are illustrated in Example 44:

(a) Paragraph 56 of [draft] IPSAS [X] (ED 70) on constraining estimates of variable consideration; and

(b) Paragraph AG58 of [draft] IPSAS [X] (ED 70) on methods for measuring progress towards complete satisfaction of a performance obligation.

IE231. Example 46 illustrates the disclosure requirements in paragraph 120 of [draft] IPSAS [X] (ED 70) for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with performance obligations regardless of the purchaser's ability to pay for the goods or services.

Example 43—Disaggregation of Revenue—Quantitative Disclosure

IE232. A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*. When the State Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

IE233. The State Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 114 of [draft] IPSAS [X] (ED 70), which is to disaggregate revenue from binding arrangements with

[9] CU 150 per examinations × 100 examinations

[10] CU 125 transaction price per examinations × 100 examinations

purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 115 of [draft] IPSAS [X] (ED 70).

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
Primary geographical markets				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
Major goods/service lines				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
Timing of revenue recognition				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

Example 44—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations

IE234. On June 30, 20X7, a centralized training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 121 – 123 of [draft] IPSAS [X] (ED 70) in determining the information in each binding arrangement to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

Binding Arrangement A

IE235. Training services are to be provided over the next two years typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE236. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the purchaser in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG58 of [draft] IPSAS [X] (ED 70). Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 122(b) of [draft] IPSAS [X] (ED 70).

Binding Arrangement B

IE237. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE238. The Agency discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this Binding Arrangement as of December 31, 20X7	4,800[11]	2,400[12]	7,200

Binding Arrangement C

IE239. Training services are to be provided as and when needed over the next two years. The Department pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the Department's employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in

[11] CU4,800 = CU400 × 12 months.

[12] CU2,400 = CU400 × 6 months

paragraph 56 of [draft] IPSAS [X] (ED 70), the Agency includes its estimate of CU750 of variable consideration in the transaction price because it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Agency measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

IE240. The Agency discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of December 31, 20X7	1,575[13]	788[14]	2,363

IE241. In addition, in accordance with paragraph 123 of [draft] IPSAS [X] (ED 70), the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the requirements for constraining estimates of variable consideration.

Example 45—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations—Qualitative Disclosure

IE242. On January 1, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a building for fixed consideration of CU10 million. The refurbishment of the building is considered a single performance obligation that Public Works satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of revenue. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE243. At 31 December 20X2, Public Works discloses the amount of the transaction price that has not yet been recognized as revenue in its disclosure of the transaction price allocated to the remaining performance obligations. Public Works also discloses an explanation of when it expects to recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining performance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of revenue recognition, Public Works discloses this information qualitatively as follows:

'As of December 31, 20X2, the aggregate amount of the transaction price allocated to the remaining performance obligation is CU6.8 million and the entity will recognize this revenue as the building is completed, which is expected to occur over the next 12–18 months.'

[13] Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

[14] CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

Example 46—Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

IE244. A government-owned utility operates a number of power plants and provides electricity to residential households. The energy sector in the jurisdiction is highly regulated, and under its Power and Energy Act, all utility companies which provide electricity to residential households are required to provide electricity regardless of the households' ability to pay. Typically, a household would apply to the utility to connect electricity to their location. As part of the connection process, the household would enter into a power purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

IE245. The power purchase agreement is considered a binding arrangement with performance obligations, as the utility has agreed to provide a distinct good (electricity) to a purchaser (the household) in exchange for consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of electricity even if a household is in default—i.e., the utility is compelled to satisfy the performance obligation to provide electricity regardless of a household's ability to pay.

IE246. During the year, the utility provided electricity that would have resulted in total revenue of CU100 million if revenue had been recognized at the utility's standard rates for 100% of the electricity provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.

IE247. The utility applies paragraph AG32 of [draft] IPSAS [X] (ED 70), and based on historical data, estimates that only CU90 million of the amount is collectible. For the remaining CU10 million, the utility accepts that it has implicitly provided a price concession of CU10 million due to the regulations compelling the utility to continue to provide electricity. As a result, the utility recognizes revenue based on a transaction price of CU90 million. (See Example 7 for more guidance on implicit price concessions.)

IE248. To comply with the disclosure requirements in paragraph 120 of [draft] IPSAS [X] (ED 70), the utility discloses the following information in the notes to its annual financial statements:

> *The utility is subject to the provisions of the Power and Energy Act, which requires all utilities to provide electricity to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its power grid and to continue to provide electricity even in the event of non-payment.*
>
> *During the year, the utility provided and billed CU100 million of electricity to the households, but only recognized revenue of CU90 million, as this was the amount expected to be collected based on historical data. Therefore, CU10 million of the amount billed was not recognized as revenue.*

Principal versus Agent Considerations

IE249. Examples 47 – 51 illustrate the requirements in paragraphs AG78 – AG86 of [draft] IPSAS [X] (ED 70) on principal versus agent considerations.

Example 47—Arranging for the Provision of Goods or Services (Entity is an Agent)

IE250. A government agency (the Agency) operates a website that enables patients (the purchasers) to procure non-essential medical services from a range of doctors and healthcare providers who deliver medical services directly to the patients. Under the terms of the Agency's binding arrangements with healthcare providers, when a service is purchased via the website, the Agency is entitled to a commission that is equal to 10 percent of the price paid to the healthcare provider. The Agency's website facilitates payment between the healthcare providers and the patients at

prices that are set by the healthcare providers. The Agency requires payment from the patient before the medical services are carried out. The Agency has no further obligations to the patients after arranging for the services to be provided to the patients.

IE251. To determine whether the Agency's performance obligation is to provide the specified service itself (i.e., the Agency is a principal) or to arrange for those services to be provided by the healthcare providers (i.e., the Agency is an agent), the Agency identifies the specified good or service to be provided to the patients and assesses whether it controls that good or service before the good or service is transferred to the patient.

IE252. The website operated by the Agency is a marketplace in which healthcare providers offer their services and patients purchase the services that are offered by the healthcare providers. Accordingly, the Agency observes that the specified services to be provided to patients that use the website are the medical services provided by the healthcare providers, and no other goods or services are promised to patients by the Agency.

IE253. The Agency concludes that it does not control the specified services before they are provided to the patients that order services using the website. The Agency does not at any time have the ability to direct the healthcare providers to provide the services to the patients on the Agency's behalf. For example, it cannot direct the services to parties other than the patient or prevent the healthcare provider from providing services to the patient. When applicable, the Agency does not control the healthcare suppliers' inventory of goods used to fulfill the orders placed by patients using the website.

IE254. As part of reaching that conclusion, the Agency considers the following indicators in paragraph AG84 of [draft] IPSAS [X] (ED 70). The Agency concludes that these indicators provide further evidence that it does not control the specified services before they are provided to the patients:

(a) The healthcare provider is primarily responsible for fulfilling the promise to provide the services to the patient. The agency is neither obliged to provide the services if the healthcare provider fails to provide the services to the patient, nor responsible for the acceptability of the services performed.

(b) If the services include the delivery of a good, the Agency does not take inventory risk at any time before or after the goods are transferred to the patients. The Agency does not commit itself to obtain the goods from the healthcare provider before the goods are purchased by the patient, and the Agency also does not accept responsibility for any damaged or returned goods.

(c) The Agency does not have discretion in establishing prices for the healthcare provider's services. The price is set by the healthcare provider.

IE255. Consequently, the Agency concludes that it is an agent and its performance obligation is to arrange for the provision of services by the healthcare providers. When the Agency satisfies its promise to arrange for the services to be provided by the healthcare providers to the patients (which, in this example, is when services are purchased by the patients), the Agency recognizes revenue in the amount of the commission to which it is entitled.

IE256. It should be noted that because the medical services in the above scenario are non-essential, they are fully paid for by the patient and there is no government involvement beyond matching the patients to a suitable healthcare provider. In contrast, in many jurisdictions, the government will

fund essential medical services and direct healthcare providers to provide services to patients. In these scenarios, the government is acting as the purchaser of the essential medical services from the healthcare providers, while the individual patients are considered third-party beneficiaries in the arrangement.

Example 48—Promise to Provide Goods or Services (Entity is a Principal)

IE257. A shared IT services agency (the Agency) enters into a binding arrangement with a government printing office (the Printing Office) for specialized printing equipment with unique specifications. The Agency and the Printing Office develop the specifications for the equipment, which the Agency communicates to a supplier that the Agency enters into a binding arrangement with to manufacture the printing equipment. The Agency also arranges to have the supplier deliver the equipment directly to the Printing Office. Upon delivery of the equipment to the Printing Office, the terms of the binding arrangement require the Agency to pay the supplier the price agreed to by the Agency and the supplier for manufacturing the equipment.

IE258. The Agency and the Printing Office negotiate the price and the Agency invoices the Printing Office for the agreed-upon price with 30-day payment terms. The Agency recovers its costs based on the difference between the sales price negotiated with the Printing Office and the price charged by the supplier.

IE259. The binding arrangement between the Agency and the Printing Office requires the Printing Office to seek remedies for defects in the printing equipment from the supplier under the supplier's warranty. However, the Agency is responsible for any corrections to the equipment required resulting from errors in specifications.

IE260. To determine whether the Agency's performance obligation is to provide the specified goods or services itself (i.e., the Agency is a principal) or to arrange for those goods or services to be provided by another party (i.e., the Agency is an agent), the Agency identifies the specified good or service to be provided to the Printing Office and assesses whether it controls that good or service before the good or service is transferred to the Printing Office.

IE261. The Agency concludes that it has promised to provide the Printing Office with specialized printing equipment designed by the Agency. Although the Agency has subcontracted the manufacturing of the printing equipment to the supplier, the Agency concludes that the design and manufacturing of the printing equipment are not distinct, because they are not separately identifiable (i.e., there is a single performance obligation). The Agency is responsible for the overall management of the binding arrangement (for example, by ensuring that the manufacturing service conforms to the specifications) and, thus, provides a significant service of integrating those items into the combined output—the specialized printing equipment—for which the Printing Office has entered into a binding arrangement. In addition, those activities are highly interrelated. If necessary modifications to the specifications are identified as the equipment is manufactured, the Agency is responsible for developing and communicating revisions to the supplier and for ensuring that any associated rework required conforms with the revised specifications. Accordingly, the Agency identifies the specified good to be provided to the Printing Office as the specialized printing equipment.

IE262. The Agency concludes that it controls the specialized printing equipment before that equipment is transferred to the Printing Office (see paragraph AG81(c)). The Agency provides the significant integration service necessary to produce the specialized printing equipment and, therefore, controls the specialized printing equipment before it is transferred to the Printing Office. The Agency directs the use of the supplier's manufacturing service as an input in creating the combined output that is

the specialized equipment. In reaching the conclusion that it controls the specialized equipment before that equipment is transferred to the Printing Office, the Agency also observes that, even though the supplier delivers the specialized printing equipment to the Printing Office, the supplier has no ability to direct its use (i.e., the terms of the binding arrangement between the Agency and the supplier preclude the supplier from using the specialized printing equipment for another purpose or directing that equipment to another purchaser). The Agency also obtains the remaining economic benefits or service potential from the specialized printing equipment by being entitled to the consideration in the binding arrangement from the Printing Office.

IE263. Thus, the Agency concludes that it is a principal in the transaction. The Agency does not consider the indicators in paragraph AG84 of [draft] IPSAS [X] (ED 70) because the evaluation above is conclusive without consideration of the indicators. The Agency recognizes revenue in the gross amount of consideration to which it is entitled from the Printing Office in exchange for the specialized printing equipment.

Example 49—Promise to Provide Goods or Services (Entity is a Principal)

IE264. A shared maintenance services agency (the Agency) enters into a binding arrangement with the Department of Social Welfare (the Department) to provide office maintenance services on the Department's properties. The Agency and the Department define and agree on the scope of the maintenance services and negotiate the price. The Agency is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Agency invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE265. The Agency regularly engages third-party service providers to provide maintenance services to its purchasers. When the Agency obtains a binding arrangement from a purchaser, the Agency enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the Department. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the Agency's binding arrangements with purchasers. However, the Agency is obliged to pay the service provider even if the Department fails to pay.

IE266. To determine whether the Agency is a principal or an agent, the Agency identifies the specified good or service to be provided to the Department and assesses whether it controls that good or service before the good or service is transferred to the Department.

IE267. The Agency observes that the specified services to be provided to the Department are the office maintenance services for which the Department entered into a binding arrangement, and that no other goods or services are promised to the Department. While the Agency obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the Department, that right is not transferred to the Department. That is, the Agency retains the ability to direct the use of, and obtain substantially all the remaining economic benefits or service potential from, that right. For example, the Agency can decide whether to direct the service provider to provide the office maintenance services for the Department, or for another purchaser, or at its own facilities. The Department does not have a right to direct the service provider to perform services that the Agency has not agreed to provide. Therefore, the right to office maintenance services obtained by the Agency from the service provider is not the specified good or service in its binding arrangement with the Department.

IE268. The Agency concludes that it controls the specified services before they are provided to the Department. The Agency obtains control of a right to office maintenance services after entering into the binding arrangement with the Department but before those services are provided to the Department. The terms of the Agency's binding arrangement with the service provider give the Agency the ability to direct the service provider to provide the specified services on the Agency's behalf (see paragraph AG81(b)). In addition, the Agency concludes that the following indicators in paragraph AG84 of [draft] IPSAS [X] (ED 70) provide further evidence that the Agency controls the office maintenance services before they are provided to the Department:

(a) The Agency is primarily responsible for fulfilling the promise to provide office maintenance services. Although the Agency has hired a service provider to perform the services promised to the Department, it is the Agency itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Agency is responsible for fulfillment of the promise in the binding arrangement, regardless of whether the Agency performs the services itself or engages a third-party service provider to perform the services).

(b) The Agency has discretion in setting the price for the services to the Department.

IE269. The Agency observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the Department. Thus, the Agency has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Agency concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE268.

IE270. Thus, the Agency is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

Example 50—Promise to Provide Goods or Services (Entity is a Principal)

IE271. A local government negotiates with hospitals to purchase vaccines at reduced rates for individual citizens in the jurisdiction compared with the price of vaccines provided directly by the hospitals to the individual citizens. The local government agrees to buy a specific number of vaccines and must pay for those vaccines regardless of whether it is able to use them. The reduced rate paid by the local government for each vaccine purchased is negotiated and agreed in advance.

IE272. The local government determines the prices at which the vaccines will be provided to the individual citizens. The local government provides the vaccines and collects the consideration from citizens when the vaccines are purchased.

IE273. The local government also assists the individual citizens in resolving complaints with the service provided by the hospitals. However, each hospital is responsible for fulfilling obligations associated with the vaccines, including remedies to a citizen for dissatisfaction with the service.

IE274. To determine whether the local government's performance obligation is to provide the specified goods or services itself (i.e., the local government is a principal) or to arrange for those goods or services to be provided by another party (i.e., the local government is an agent), the local government identifies the specified good or service to be provided to the individual citizens and assesses whether it controls that good or service before the good or service is transferred to the citizens.

IE275. The local government concludes that, with each vaccine that it commits itself to purchase from the hospitals, it obtains control of a right to the vaccine that the local government then transfers to an individual citizen, who in turn is one of the local government's purchasers (see paragraph AG81(a)). Consequently, the local government determines that the specified good or service to be provided to the individual citizen, is that right to a unit of the vaccine that the local government controls. The local government observes that no other goods or services are promised in this arrangement to the individual citizens.

IE276. The local government controls the right to each unit of vaccine before it transfers that specified right to one of its citizens because the local government has the ability to direct the use of that right by deciding whether to use the vaccine to fulfill a binding arrangement with a citizen and, if so, which binding arrangement it will fulfill. The local government also has the ability to obtain the remaining benefits or service potential from that right by either reselling the vaccine and obtaining all of the proceeds from the sale or, alternatively, providing the vaccine to another individual.

IE277. The indicators in paragraphs AG84(b) – (c) of [draft] IPSAS [X] (ED 70) also provide relevant evidence that the local government controls each specified right (to the vaccine) before it is transferred to the citizen. The local government has inventory risk with respect to the vaccine because the local government committed itself to obtain the vaccine from the hospital before obtaining a binding arrangement with a citizen to purchase the vaccine. This is because the local government is obliged to pay the hospital for that right regardless of whether it is able to obtain a purchaser to redirect the vaccine to or whether it can obtain a favorable price for the vaccine. The local government also establishes the price that the individual citizen will pay for the specified vaccine.

IE278. Thus, the local government concludes that it is a principal in the transactions with the individual citizens. The local government recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the vaccines transferred to the citizens.

Example 51—Arranging for the Provision of Goods or Services (Entity is an Agent)

IE279. The Department of Health (the Department) provides vouchers that entitle qualifying individuals (the patients) to subsidized vaccination services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal prices of the vaccination services (for example, a patient pays CU10 for a voucher that entitles the patient to a vaccine at a clinic that would otherwise cost CU20). The Department does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. The Department provides the vouchers through its website and the vouchers are non-refundable.

IE280. The Department and the clinics jointly determine the prices at which the vouchers will be provided to patients. Under the terms of its binding arrangements with the clinics, the Department is entitled to 30 percent of the voucher price when it provides the voucher.

IE281. The Department also assists the patients in resolving complaints about the vaccination services and has a patient satisfaction program. However, the clinics are responsible for fulfilling obligations associated with the voucher, including remedies to a patient for dissatisfaction with the vaccination.

IE282. To determine whether the Department is a principal or an agent, the Department identifies the specified good or service to be provided to the patient and assesses whether it controls the specified good or service before that good or service is transferred to the patient.

IE283. A patient obtains a voucher for the clinic that it selects. The Department does not engage the clinics to provide vaccinations to patients on the Department's behalf as described in the indicator in paragraph AG84(a) of [draft] IPSAS [X] (ED 70). Therefore, the Department observes that the specified service to be provided to the patient is the right to a vaccination (in the form of a voucher) at a specified clinic or clinics, which the patient purchases and then can use itself or transfer to another person. The Department also observes that no other goods or services (other than the vouchers) are promised to the patients.

IE284. The Department concludes that it does not control the voucher (right to a vaccination) at any time. In reaching this conclusion, the Department principally considers the following:

(a) The vouchers are created only at the time that they are transferred to the patients and, thus, do not exist before that transfer. Therefore, the Department does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining benefits or service potential from the vouchers, before they are transferred to patients.

(b) The Department neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. The Department also has no responsibility to accept any returned vouchers. Therefore, the Department does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG84(b) of [draft] IPSAS [X] (ED 70).

IE285. Thus, the Department concludes that it is an agent with respect to the vouchers. The Department recognizes revenue in the net amount of consideration to which the Department will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' vaccination services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

Purchaser Options for Additional Goods or Services

Illustrating the Consequences of Applying Paragraphs 26- 28, and AG87 - AG91 of [draft] IPSAS [X]

IE286. Examples 52 – 54 illustrate the requirements in paragraphs AG87 – AG91 of [draft] IPSAS [X] (ED 70) on purchaser options for additional goods or services. Example 53 illustrates the requirements in paragraphs 26 – 28 of [draft] IPSAS [X] (ED 70) on identifying performance obligations. Example 54 illustrates a loyalty program. That example may not apply to all loyalty arrangements because the terms and conditions may differ. In particular, when there are more than two parties to the arrangement, an entity should consider all facts and circumstances to determine the purchaser in the transaction that gives rise to the award credits.

Example 52—Option that Provides the Purchaser with a Material Right (Discount Voucher)

IE287. A university-owned bookstore (the University) enters into a binding arrangement with a student for the sale of Textbook A for CU100. As part of the binding arrangement, the University gives the students a discount voucher for 40 percent off any future purchases at the bookstore up to CU100 in the next 30 days. The University intends to offer a 10 percent discount on all sales at the bookstore during the next 30 days as part of a start-of-year seasonal promotion. The 10 percent discount cannot be used in addition to the 40 percent discount voucher.

IE288. Because all purchasers will receive a 10 percent discount on purchases during the next 30 days, the only discount that provides the purchaser with a material right is the discount that is incremental to the 10 percent (i.e., the additional 30 percent discount). The University accounts for the promise to provide the incremental discount as a performance obligation in the binding arrangement for the sale of Textbook A.

IE289. To estimate the stand-alone price of the discount voucher in accordance with paragraph AG90 of [draft] IPSAS [X] (ED 70), the University estimates an 80 percent likelihood that a student will redeem the voucher and that a student will, on average, purchase CU50 of additional products. Consequently, the University's estimated stand-alone price of the discount voucher is CU12 (CU50 average purchase price of additional products × 30 percent incremental discount × 80 percent likelihood of exercising the option). The stand-alone prices of Textbook A and the discount voucher and the resulting allocation of the CU100 transaction price are as follows:

Performance obligation	**Stand-alone price**	
	CU	
Textbook A	100	
Discount voucher	12	
Total	112	
	Allocated transaction price	
Textbook A	89	(CU100 ÷ CU112 × CU100)
Discount voucher	11	(CU12 ÷ CU112 × CU100)
Total	100	

IE290. The University allocates CU89 to Textbook A and recognizes revenue for Textbook A when control transfers. The University allocates CU11 to the discount voucher and recognizes revenue for the voucher when the student redeems it for goods or services or when it expires.

Example 53—Option that Provides the Purchaser with a Material Right (Renewal Option)

IE291. A government shared services agency (the Agency) enters into 100 separate binding arrangements with other government departments to provide one year of maintenance services for CU10,000 per binding arrangement. The terms of the binding arrangements specify that at the end of the year, each department has the option to renew the maintenance binding arrangement for a second year by paying an additional CU10,000. departments who renew for a second year are also granted the option to renew for a third year for CU10,000. To entice the other departments to plan ahead and better manage resources in the long-term, the Agency charges significantly higher prices for maintenance services to departments that do not sign up for the maintenance services initially (i.e., when the departments initially enter into the arrangement). For example, the Agency charges CU30,000 in Year 2 and CU50,000 in Year 3 for annual maintenance services if a department does not initially purchase the service or allows the service to lapse.

IE292. The Agency concludes that the renewal option provides a material right to a department that it would not receive without entering into the binding arrangement, because the price for maintenance services are significantly higher if a department elects to purchase the services only in Year 2 or 3. Part of each department's payment of CU10,000 in the first year is, in effect, a non-refundable prepayment of the services to be provided in a subsequent year. Consequently, the Agency concludes that the promise to provide the option is a performance obligation.

IE293. The renewal option is for a continuation of maintenance services and those services are provided in accordance with the terms of the existing binding arrangement. Instead of determining the stand-alone prices for the renewal options directly, the Agency allocates the transaction price by determining the consideration that it expects to receive in exchange for all the services that it expects to provide, in accordance with paragraph AG91 of [draft] IPSAS [X] (ED 70).

IE294. The Agency expects 90 departments to renew at the end of Year 1 (90 percent of binding arrangements provided) and 81 departments to renew at the end of Year 2 (90 percent of the 90 departments that renewed at the end of Year 1 will also renew at the end of Year 2, that is 81 percent of binding arrangements provided).

IE295. At the inception of the binding arrangement, the Agency determines the expected consideration for each binding arrangement is CU27,100 [CU10,000 + (90 percent × CU10,000) + (81 percent × CU10,000)]. The Agency also determines that recognizing revenue on the basis of costs incurred relative to the total expected costs depicts the transfer of services to the purchaser. Estimated costs for a three-year binding arrangement are as follows:

	CU
Year 1	6,000
Year 2	7,500
Year 3	10,000

IE296. Accordingly, the pattern of revenue recognition expected at the inception of the binding arrangement for each binding arrangement is as follows:

	Expected costs adjusted for likelihood of renewal of the binding arrangement	Allocation of consideration expected		
	CU		CU	
Year 1	6,000	(CU6,000 × 100%)	7,800	[(CU6,000 ÷ CU20,850) × CU27,100]
Year 2	6,750	(CU7,500 × 90%)	8,770	[(CU6,750 ÷ CU20,850) × CU27,100]
Year 3	8,100	(CU10,000 × 81%)	10,530	[(CU8,100 ÷ CU20,850) × CU27,100]
Total	20,850		27,100	

IE297. Consequently, at the inception of the binding arrangement, the Agency allocates to the option to renew at the end of Year 1 CU220,000 of the consideration received to date [cash of CU1,000,000 – revenue to be recognized in Year 1 of CU780,000 (CU7,800 × 100)].

IE298. Assuming there is no change in the Agency's expectations and the 90 departments renew as expected, at the end of the first year, the Agency has collected cash of CU1,900,000 [(100 × CU10,000) + (90 × CU10,000)], has recognized revenue of CU780,000 (CU7,800 × 100) and has recognized a binding arrangement liability of CU1,120,000.

IE299. Consequently, upon renewal at the end of the first year, the Agency allocates CU243,000 to the option to renew at the end of Year 2 [cumulative cash of CU1,900,000 less cumulative revenue recognized in Year 1 and to be recognized in Year 2 of CU1,657,000 (CU780,000 + CU8,770 × 100)].

IE300. If the actual number of renewals to the binding arrangement was different than what the Agency expected, the Agency would update the transaction price and the revenue recognized accordingly.

Example 54—Loyalty Program

IE301. A government-owned museum (the Museum) has a loyalty program that rewards visitors with one loyalty point for every CU10 of purchases. Each point is redeemable for a CU1 discount on any future purchases of the Museum's products. During a reporting period, the Museum's visitors collectively acquired CU100,000 of products and earned 10,000 points that are redeemable for future purchases. The consideration is fixed, and the stand-alone price of the purchased products is CU100,000. The Museum expects 9,500 points to be redeemed. The Museum estimates a stand-alone price of CU0.95 per point (totaling CU9,500) on the basis of the likelihood of redemption in accordance with paragraph AG90 of [draft] IPSAS [X].

IE302. The points provide a material right to visitors that they would not receive without entering into a binding arrangement. Consequently, the Museum concludes that the promise to provide points to the visitors is a performance obligation. The Museum allocates the transaction price (CU100,000) to the product and the points on a relative stand-alone price basis as follows:

	CU	
Product	91,324	[CU100,000 × (CU100,000 stand-alone price ÷ CU109,500)]
Points	8,676	[CU100,000 × (CU9,500 stand-alone price ÷ CU109,500)]

IE303. At the end of the first reporting period, 4,500 points have been redeemed and the Museum continues to expect 9,500 points to be redeemed in total. The Museum recognizes revenue for the loyalty points of CU4,110 [(4,500 points ÷ 9,500 points) × CU8,676] and recognizes a binding arrangement liability of CU4,566 (CU8,676 – CU4,110) for the unredeemed points at the end of the first reporting period.

IE304. At the end of the second reporting period, 8,500 points have been redeemed cumulatively. The Museum updates its estimate of the points that will be redeemed and now expects that 9,700 points will be redeemed. The Museum recognizes revenue for the loyalty points of CU3,493 {[(8,500 total points redeemed ÷ 9,700 total points expected to be redeemed) × CU8,676 initial allocation] – CU4,110 recognized in the first reporting period}. The binding arrangement liability balance is CU1,073 (CU8,676 initial allocation – CU7,603 of cumulative revenue recognized).

Non-refundable Upfront Fees

Illustrating the Consequences of Applying Paragraphs AG97 - AG100of [draft] IPSAS [X]

IE305. Example 55 illustrates the requirements in paragraphs AG97 – AG100 of [draft] IPSAS [X] (ED 70) on non-refundable upfront fees.

Example 55—Non-refundable Upfront Fee

IE306. A public swimming pool (the Pool) enters into a binding arrangement with an individual to provide one year of access to the pools. The Pool's binding arrangements have standard terms that are the same for all individuals. The binding arrangement requires the individual to pay an upfront administration fee to set up the individual on the Pool's systems. The fee is a nominal amount and is non-refundable. The individual can renew the binding arrangement each year without paying an additional fee.

IE307. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate performance obligation.

IE308. The Pool concludes that the renewal option does not provide a material right to the individual that it would not receive without entering into that binding arrangement (see paragraph AG88 of [draft] IPSAS [X] (ED 70)). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction price, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG98 of draft] IPSAS [X] (ED 70).

Licensing

Illustrating the Consequences of Applying Paragraphs 21-29, 38-44, 83-85 and AG101-AG114 of [draft] IPSAS [X]

IE309. Examples 56 – 62 illustrate the requirements in paragraphs 21 – 29 of [draft] IPSAS [X] (ED 70) for identifying performance obligations and paragraphs AG101 – AG114 of [draft] IPSAS [X] (ED 70) on licensing. These examples also illustrate other requirements as follows:

(a) Paragraphs 38 – 44 of [draft] IPSAS [X] (ED 70) on measuring progress towards complete satisfaction of a performance obligation (Example 59); and

(b) Paragraphs AG112 – AG114 of [draft] IPSAS [X] (ED 70) on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 61).

IE310. Example 63 illustrates the following requirements:

(a) Paragraphs 21 – 29 of IPSAS [X] (ED 70) for identifying performance obligations, identifying the goods or services to be transferred in the license arrangement, and determining if the license is distinct from other goods or services in the arrangement;

(b) Paragraphs 34 – 37 and AG44 – AG55 of IPSAS [X] (ED 70) for determining whether a performance obligation is satisfied over time or at a point in time; and

(c) Paragraph AG115 of [draft] IPSAS [X] (ED 70) on non-IP licenses.

Example 56—Right to Use Intellectual Property

IE311. Using the same facts as Case A in Example 15 (see paragraphs IE66 – IE70), the Agency identifies four performance obligations in a binding arrangement:

(a) The software license;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE312. The Agency assesses the nature of its promise to transfer the software license in accordance with paragraph AG106 of [draft] IPSAS [X] (ED 70). The Agency does not consider in its assessment of the criteria in paragraph AG106 of [draft] IPSAS [X] (ED 70) the promise to provide software updates, because they result in the transfer of an additional good or service to the State Government (the purchaser in Example 15) (see paragraph AG106(c)). The Agency also observes that it does not have any implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the license period. The Agency observes that the software remains functional without the updates and the technical support and, therefore, the ability of the State Government to obtain the economic benefits or service potential of the software is not substantially derived from, or dependent on, the entity's ongoing activities. The Agency therefore determines that the binding arrangement does not require, and the State Government does not reasonably expect, the Agency to undertake activities that significantly affect the software (independent of the updates and technical support). The Agency concludes that the software to which the license relates has significant stand-alone functionality and none of the criteria in paragraph AG106 of [draft] IPSAS [X] (ED 70) are met. The Agency further concludes that the nature of the Agency's promise in transferring the license is to provide a right to use the its intellectual property as it exists at a point in time. Consequently, the Agency accounts for the license as a performance obligation satisfied at a point in time.

Example 57—License of Intellectual Property

IE313. A government film library (the library) enters into a binding arrangement with a museum to license (for a period of three years) a collection of government-owned films for display in an exhibition. The binding arrangement also specifies that the museum will obtain any new films added to the collection by the library during the licensing period. The updates are integral to the museum's ability to generate economic benefits or service potential from the license during the license period, because the films relate to historical events which are considered relevant to current cultural views and public discourse.

IE314. The library assesses the goods and services promised to the museum to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The library determines that the museum can generate economic benefits or service potential from (a) the license on its own without the addition of the new films; and (b) the addition of the new films together with the initial license. Although the economic benefits or service potential that the museum could obtain from the license on its own (i.e., without the additional films) is limited because the updates are integral to the museum's ability to continue to attract significantly more visitors, the license can be used in a way that generates some economic benefits or service potential. Therefore, the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is met for the license and the addition of new films.

IE315. The fact that the economic benefits or service potential that the museum could obtain from the license on its own (i.e., without the addition of the new films) is limited (because the addition of the new films are integral to the museum's ability to attract more visitors) is also considered in assessing whether the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is met. Because the economic benefits or service potential that the museum could obtain from the license over the three-

year term without the additions would be significantly limited, the library's promises to grant the license and to provide the expected additions are, in effect, inputs that together fulfill a single promise to deliver a combined item to the museum. That is, the nature of the library's promise in the binding arrangement is to provide ongoing access to the library's film collection for the three-year term of the binding arrangement. The promises within that combined item (i.e., to grant the license and to provide new films when-and-if-available) are, therefore, not separately identifiable in accordance with the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70).

IE316. The nature of the combined good or service that the library promised to transfer to the museum is ongoing access to the library's film collection for the three-year term of the binding arrangement. On the basis of this conclusion, the library applies paragraphs 30 – 37 of [draft] IPSAS [X] (ED 70) to determine whether the single performance obligation is satisfied at a point in time or over time. The library concludes that because the museum simultaneously receives and consumes the economic benefits or service potential of the library's performance as it occurs, the performance obligation is satisfied over time in accordance with paragraph 34(a) of [draft] IPSAS [X] (ED 70).

Example 58—Identifying a Distinct License

IE317. A university research facility (the Facility) licenses to a clinic its patent rights to a laser surgery technology for 10 years and also promises to manufacture the technology for the clinic. Laser surgery technology in general is mature; therefore, the Facility will not undertake any activities to support the technology, which is consistent with its customary practices.

Case A—License is Not Distinct

IE318. In this case, no other entity can manufacture this technology because of the highly specialized nature of the manufacturing process. As a result, the license cannot be purchased separately from the manufacturing services.

IE319. The Facility assesses the goods and services promised to the clinic to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Facility determines that the clinic cannot generate economic benefits or service potential from the license without the manufacturing service; therefore, the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is not met. Consequently, the license and the manufacturing service are not distinct and the Facility accounts for the license and the manufacturing service as a single performance obligation.

IE320. The Facility applies paragraphs 30 – 37 of [draft] IPSAS [X] (ED 70) to determine whether the performance obligation (i.e., the bundle of the license and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—License is Distinct

IE321. In this case, the manufacturing process used to produce the laser surgery technology is not unique or specialized and several other entities can also manufacture the technology for the clinic.

IE322. The Facility assesses the goods and services promised to the clinic to determine which goods and services are distinct, and it concludes that the criteria in paragraph 26 of [draft] IPSAS [X] (ED 70) are met for each of the license and the manufacturing service. The Facility concludes that the criterion in paragraph 26(a) of [draft] IPSAS [X] (ED 70) is met because the clinic can generate economic benefits or service potential from the license together with readily available resources other than the Facility's manufacturing service (because there are other entities that can provide

the manufacturing service), and can generate economic benefits or service potential from the manufacturing service together with the license transferred to the clinic at the start of the binding arrangement.

IE323. The Facility also concludes that its promises to grant the license and to provide the manufacturing service are separately identifiable (i.e., the criterion in paragraph 26(b) of [draft] IPSAS [X] (ED 70) is met). The Facility concludes that the license and the manufacturing service are not inputs to a combined item in this binding arrangement on the basis of the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 70). In reaching this conclusion, the Facility considers that the clinic could separately purchase the license without significantly affecting its ability to generate economic benefits or service potential from the license. Neither the license, nor the manufacturing service, is significantly modified or customized by the other and the Facility is not providing a significant service of integrating those items into a combined output. The Facility further considers that the license and the manufacturing service are not highly interdependent or highly interrelated because the Facility would be able to fulfill its promise to transfer the license independently of fulfilling its promise to subsequently manufacture the laser for the clinic. Similarly, the Facility would be able to manufacture the laser for the clinic even if the clinic had previously obtained the license and initially utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the license in this contract (i.e., the Facility would not provide the manufacturing service without the clinic having obtained the license), the license and the manufacturing service do not significantly affect each other. Consequently, the Facility concludes that its promises to grant the license and to provide the manufacturing service are distinct and that there are two performance obligations:

(a) License of patent rights; and

(b) Manufacturing service.

IE324. The Facility assesses, in accordance with paragraph AG106 of [draft] IPSAS [X] (ED 70), the nature of the Facility's promise to grant the license. The laser technology is a mature product (i.e., it has been approved, is currently being manufactured and has been provided at a surplus for the last several years). For these types of mature products, the Facility's customary practices are not to undertake any activities to support the laser technology. The technology has significant stand-alone functionality (i.e., its ability to be used in a way that treats a disease or condition). Consequently, the clinic obtains a substantial portion of the economic benefits or service potential of the laser technology from that functionality, rather than from the Facility's ongoing activities. The Facility concludes that the criteria in paragraph AG106 of [draft] IPSAS [X] (ED 70) are not met because the binding arrangement does not require, and the binding arrangement does not reasonably expect, the Facility to undertake activities that significantly affect the intellectual property to which the clinic has rights. In its assessment of the criteria in paragraph AG106 of [draft] IPSAS [X] (ED 70), the Facility does not take into consideration the separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the Facility's promise in transferring the license is to provide a right to use the Facility's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the clinic. Consequently, the Facility accounts for the license as a performance obligation satisfied at a point in time.

IE325. The Facility applies paragraphs 30 – 37 of [draft] IPSAS [X] (ED 70) to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Example 59—Access to Intellectual Property

IE326. Using the same scenario as Example 58, except the Facility is continuing research on its laser technology that is being licensed to the clinic, and the Facility has determined that the license and the manufacturing is one performance obligation. The Facility licenses the use of its laser technology to the clinic for a four-year term. Typically, the laser technology has been used in eye surgery. However, the Facility has also developed new uses for its laser technology, such as in hair follicle regeneration. In addition, the Facility has developed the use of different frequencies of lasers which can improve the effectiveness of its technology. The clinic (the purchaser from Example 58) can use the Facility's technology in various ways, such as in eye surgeries, hair regrowth treatments or removal of skin tumors. The binding arrangement requires the clinic to use the laser technology in the various ways as outlined above.

IE327. In exchange for granting the license, the Facility receives a fixed payment of CU1 million in each year of the four-year term.

IE328. In accordance with paragraph 26 of [draft] IPSAS [X] (ED 70), the Facility assesses the goods and services promised to the clinic to determine which goods and services are distinct. The Facility concludes that it has no other performance obligations other than the promise to grant a license. That is, the additional activities associated with the license do not directly transfer a good or service to the clinic because they are part of the Facility's promise to grant a license.

IE329. The Facility assesses the nature of the Facility's promise to transfer the license in accordance with paragraph AG106 of [draft] IPSAS [X] (ED 70). In assessing the criteria, the Facility considers the following:

(a) The clinic reasonably expects (arising from the Facility's customary practices) that the Facility will undertake activities that will significantly affect the intellectual property to which the clinic has rights (i.e., the laser technology). This is because the Facility's activities (i.e., development of the various frequencies of the lasers as well as new uses for the laser) change the form of the intellectual property to which the clinic has rights. In addition, the ability of the clinic to generate economic benefits or service potential from the intellectual property to which the clinic has rights is substantially derived from, or dependent upon, the Facility's ongoing activities (i.e., the release of more effective lasers or new treatments which use the technology).

(b) The rights granted by the license directly expose the clinic to any positive or negative effects of the Facility's activities because the binding arrangement requires the clinic to use the latest laser frequencies when using the technology.

(c) Even though the clinic may generate economic benefits or service potential from those activities through the rights granted by the license, they do not transfer a good or service to the clinic as those activities occur.

IE330. Consequently, the Facility concludes that the criteria in paragraph AG106 of [draft] IPSAS [X] (ED 70) are met and that the nature of the Facility's promise to transfer the license is to provide the clinic with access to the Facility's intellectual property as it exists throughout the license period. Consequently, the Facility accounts for the promised license as a performance obligation satisfied over time (i.e., the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) is met).

IE331. The Facility entity applies paragraphs 38 – 44 of [draft] IPSAS [X] (ED 70) to identify the method that best depicts its performance in the license. Because the binding arrangement provides the

clinic with unlimited use of the licensed technology for a fixed term, the Facility determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

Example 60—Right to use Intellectual Property (Recognition at a Point in Time)

IE332. A government-owned music archive (the Archive), licenses to a consumer products company (the Company) a 1975 recording of a national anthem by a noted orchestra. The Company has the right to use the recorded anthem in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the license, the Archive receives fixed consideration of CU10,000 per month. The binding arrangement does not include any other goods or services to be provided by the Archive. The binding arrangement is non-cancellable.

IE333. The Archive assesses the goods and services promised to the Company to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Archive concludes that its only performance obligation is to grant the license. The Archive determines that the term of the license (two years), its geographical scope (the Company's right to use the recording only in Country A), and the defined permitted use for the recording (in commercials) are all attributes of the promised license in the binding arrangement.

IE334. In accordance with paragraph AG106 of [draft] IPSAS [X] (ED 70), the Archive assesses the nature of its promise to grant the license. The Archive does not have any contractual or implied obligations to change the licensed recording. The licensed recording has significant stand-alone functionality (i.e., the ability to be played) and, therefore, the ability of the Company to generate economic benefits or service potential of the recording is not substantially derived from the Archive's ongoing activities. The Archive therefore determines that the binding arrangement does not require, and the Company does not reasonably expect, the Archive to undertake activities that significantly affect the licensed recording (i.e., the criterion in paragraph AG106(a) is not met). Consequently, the Archive concludes that the nature of its promise in transferring the license is to provide the Company with a right to use the Archive's intellectual property as it exists at the point in time that it is granted. Therefore, the promise to grant the license is a performance obligation satisfied at a point in time. The Archive recognizes all of the revenue at the point in time when the Company can direct the use of, and obtain substantially all of the remaining generate economic benefits or service potential from, the licensed intellectual property.

IE335. Because of the length of time between the Archive's performance (at the beginning of the period) and the Company's monthly payments over two years (which are non-cancellable), the Archive considers the requirements in paragraphs 59 – 64 of [draft] IPSAS [X] (ED 70) to determine whether a significant financing component exists.

Example 61—Sales-based Royalty for a License of Intellectual Property

IE336. The government research facility (the Facility) in Examples 58 and 59, licenses its laser technology to a clinic. The clinic, which performs various laser surgeries, has the right to use the laser technology for six years. Additionally, the Facility has agreed to (a) provide promotional materials and signage to the clinic for display at the clinic's premises before the beginning of the six-year license period; and (b) sponsor radio advertisements for laser surgeries in the clinic's geographical area throughout the six-year license period. In exchange for providing the license and the additional promotional goods and services, the Facility will receive a portion of the clinic's sales for use of its laser technology (i.e., variable consideration in the form of a sales-based royalty).

IE337. The Facility concludes that the license to use the laser technology is the predominant item to which the sales-based royalty relates because the Facility has a reasonable expectation that the clinic would ascribe significantly more value to the license than to the related promotional goods or services. The Facility recognizes revenue from the sales-based royalty, the only consideration to which the Facility is entitled under the binding arrangement, wholly in accordance with paragraph AG112 of [draft] IPSAS [X] (ED 70). If the license, the promotional materials and activities are separate performance obligations, the Facility would allocate the sales-based royalty to each performance obligation.

Example 62—Access to Intellectual Property

IE338. The Department of Tourism (the Department) licenses the use of its name and logo to a purchaser in the tourism sector. The purchaser, a tour operator, has the right to use the Department's name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the license, the Department will receive fixed consideration of CU2 million and a royalty of five percent of the sales price of any items using the Department's name or logo. The tour operator expects that the Department will continue to promote local tourist attractions in the region.

IE339. The Department assesses the goods and services promised to the tour operator to determine which goods and services are distinct in accordance with paragraph 26 of [draft] IPSAS [X] (ED 70). The Department concludes that its only performance obligation is to transfer the license. The additional activities associated with the license (i.e., continuing to promote tourist attractions) do not directly transfer a good or service to the tour operator because they are part of the Department's promise to grant the license.

IE340. The Department assesses the nature of its promise to transfer the license in accordance with paragraph AG106 of [draft] IPSAS [X] (ED 70). In assessing the criteria, the Department considers the following:

(a) The Department concludes that the tour operator would reasonably expect that the Department will undertake activities that will significantly affect the intellectual property (i.e., the Department name and logo) to which the tour operator has rights. This is on the basis of the Department's customary practice to undertake activities that support and maintain the value of the name and logo such as continuing to promote attractions in the region. The Department determines that the ability of the tour operator to generate economic benefits or service potential from the name and logo is substantially derived from, or dependent upon, the expected activities of the Department. In addition, the Department observes that because some of its consideration is dependent on the success of the tour operator (through the sales-based royalty), the Department has a shared economic interest with the tour operator, which indicates that the tour operator will expect the Department to undertake those activities to maximize earnings.

(b) The Department observes that the rights granted by the license (i.e., the use of the Department's name and logo) directly expose the tour operator to any positive or negative effects of the Department's activities.

(c) The Department also observes that even though the tour operator may generate economic benefits or service potential from the activities through the rights granted by the license, they do not transfer a good or service to the tour operator as those activities occur.

IE341. The Department concludes that the criteria in paragraph AG106 of [draft] IPSAS [X] (ED 70) are met and the nature of the Department's promise to grant the license is to provide the tour operator with access to the Department's intellectual property as it exists throughout the license period. Consequently, the Department accounts for the promised license as a performance obligation satisfied over time (i.e., the criterion in paragraph 34(a) of [draft] IPSAS [X] (ED 70) is met).

IE342. The Department then applies paragraphs 38 – 44 of [draft] IPSAS [X] (ED 70) to determine a measure of progress that will depict the Department's performance. For the consideration that is in the form of a sales-based royalty, paragraph AG112 of [draft] IPSAS [X] (ED 70) applies because the sales-based royalty relates solely to the license, which is the only performance obligation in the binding arrangement. The Department concludes that recognition of the CU2 million fixed consideration as revenue rateably over time plus recognition of the royalty as revenue as and when the tour operator's sales of items using the Department's name or logo occur reasonably depicts the Department's progress towards complete satisfaction of the license performance obligation.

Example 63—Non-IP Licenses

IE343. A local government entity (the Government) issued a license to Company A to permit the cultivation and sale of cannabis within its jurisdiction in exchange for consideration of CU5 million. The key terms of the license are as follows:

(a) The license is for a period of 5 years;

(b) The CU5 million payment is non-refundable and is due when the license is issued;

(c) The license grants Company A the right to grow and sell cannabis during the license period and also states that no other entities are permitted to grow or sell cannabis within a 15-kilometer radius of Company A's location;

(d) During the license period, the Government is responsible for performing a number of regulatory oversight and monitoring activities and has the right to visit Company A's premises to ensure that it is in compliance with all laws and regulations relating to the cultivation and sale of cannabis; and

(e) Without the license, the cultivation and sale of cannabis in the Government's jurisdiction is illegal.

IE344. The Government applies paragraph 26 of [draft] IPSAS [X] (ED 70) to determine whether the license includes a performance obligation to transfer a distinct good or service to Company A and noted that the license embodies the right to cultivate and sell cannabis in its jurisdiction. This right is considered a distinct good, as Company A can generate economic benefits from the use of the license together with its own resources, to perform cannabis cultivation and sale activities.

IE345. In accordance with paragraph 24 of [draft] IPSAS [X] (ED 70), the Government noted that refraining from issuing new cannabis licenses in Company A's geographic location or performing regulatory activities are not considered a transfer of additional goods or services beyond the license itself, as these activities merely confirm the attributes promised at the inception of the license or confirm that the terms of the license have been met. Therefore, the Government applies paragraph 37 of [draft] IPSAS [X] (ED 70) and concludes that the arrangement only has one performance obligation (the transfer of the license), which is satisfied upon the issuance of the license, and recognizes revenue of CU5 million when the license is issued.

Repurchase Agreements

Illustrating the Consequences of Applying Paragraphs AG116-AG128 of [draft] IPSAS [X]

IE346. Example 64 illustrates the requirements in paragraphs AG116 – AG128 of [draft] IPSAS [X] (ED 70) on repurchase agreements.

Example 64—Repurchase Agreements

IE347. A local government enters into a binding arrangement with a local farmer for the sale of undeveloped land on January 1, 20X3 for CU1 million. The undeveloped land is currently unused by the local government but may be used for the construction of roads in future.

Case A—Call Option: Financing

IE348. The binding arrangement includes a call option that gives the local government the right to repurchase the land for CU1.5 million on or before December 31, 20X7—i.e., within five years' time.

IE349. Control of the asset does not transfer to the local farmer on January 1, 20X3 because the local government has a right to repurchase the land and therefore the local farmer is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the land. Consequently, in accordance with paragraph AG118(b) of [draft] IPSAS [X] (ED 70), the local government accounts for the transaction as a financing arrangement, because the exercise price is more than the original price. In accordance with paragraph AG120 of [draft] IPSAS [X] (ED 70), the local government does not derecognize the land and instead recognizes the cash received as a financial liability. The local government also recognizes interest expense over time for the difference between the exercise price (CU1.5 million) and the cash received (CU1 million), which increases the liability over time.

IE350. On December 31, 20X7, the option lapses unexercised; therefore, the local government derecognizes the liability and recognizes revenue of CU1.5 million.

Case B—Put Option: Lease

IE351. Instead of having a call option, the binding arrangement includes a put option that obliges the local government to repurchase the land at the local farmer's request for CU1.5 million on or before December 31, 20X7. The market value is expected to be CU1.35 million on December 31, 20X7. The objective of the binding arrangement is to support the agriculture industry in the current economic climate through the provision of land to the local farmer during the period of the binding arrangement, as well as a CU150,000 subsidy, or the difference between the exercise price of the put option and the expected market value, upon the exercise of the put option.

IE352. At the inception of the binding arrangement, the local government assesses whether the local farmer has a significant economic incentive to exercise the put option, to determine the accounting for the transfer of the land (see paragraphs AG122 – AG128 of [draft] IPSAS [X] (ED 70)). The local government concludes that the local farmer has a significant economic incentive to exercise the put option because the repurchase price significantly exceeds the expected market value of the land at the date of repurchase. The local government determines there are no other relevant factors to consider when assessing whether the local farmer has a significant economic incentive to exercise the put option. Consequently, the local government concludes that control of the land does not transfer to the local farmer, because the local farmer is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the land.

IE353. In accordance with paragraphs AG122 – AG123 of [draft] IPSAS [X] (ED 70), the local government accounts for the transaction as a lease in accordance with IPSAS 13, *Leases*.[15]

Bill-and-Hold Arrangements

Illustrating the Consequences of Applying Paragraphs AG131 - AG134 of [draft] IPSAS [X]

IE354. Example 65 illustrates the requirements in paragraphs AG131 – AG134 of [draft] IPSAS [X] (ED 70) on bill-and-hold arrangements.

Example 65—Bill-and-Hold Arrangement

IE355. A government mint (the Mint) enters into a binding arrangement with a sporting event committee (the Committee) on January 1, 20X8 for the sale of two batches of commemorative coins, each relating to a different event. The manufacturing lead time for the coins is one year.

IE356. Upon completion of the coins, the Mint demonstrates that the coins meet the agreed-upon specifications in the binding arrangement. The promises to transfer the two batches of coins are distinct and result in two performance obligations that each will be satisfied at a point in time. On December 31, 20X8, the Committee pays for both batches of coins, but only takes physical possession of the first batch of coins, as the event relating to the second batch is not scheduled to occur for another two years. Although the Committee inspects and accepts the second batch of coins, the Committee requests that the second batch be stored at the Mint's warehouse for two years due to better security at their premises. The Committee has legal title to the second batch of coins and the coins can be identified as belonging to the Committee. Furthermore, the Mint stores the second batch of coins in a separate section of its warehouse and the coins ready for immediate shipment at the Committee's request. The Mint expects to hold the second batch of coins for up to two years and the Mint does not have the ability to use the second batch of coins or direct them to another purchaser.

IE357. The Mint identifies the promise to provide custodial services as a performance obligation because it is a service provided to the Committee and it is distinct from the two batches of coins. Consequently, the Mint accounts for three performance obligations in the binding arrangement (the promises to provide the two batches of commemorative coins and the custodial services). The transaction price is allocated to the three performance obligations and revenue is recognized when (or as) control transfers to the Committee.

IE358. Control of the first batch of coins transfers to the Committee on December 31, 20X8 when the Committee takes physical possession. The Mint assesses the indicators in paragraph 37 of [draft] IPSAS [X] (ED 70) to determine the point in time at which control of the second batch of coins transfers to the Committee, noting that the Mint has received payment, the Committee has legal title to the second batch of coins, and the Committee has inspected and accepted the second batch. In addition, the Mint concludes that all of the criteria in paragraph AG133 of [draft] IPSAS [X] (ED 70) are met, which is necessary for the Mint to recognize revenue in a bill-and-hold arrangement. The Mint recognizes revenue for the second batch of coins on December 31, 20X8 when control transfers to the Committee.

[15] The IPSASB is currently undertaking a project to align its guidance on leases with IFRS 16, *Leases.* As a result, this example is subject to change depending on the outcome of the Leases project. Specifically, if the IPSASB departs from the IASB in lessor accounting, the wording will have to be amended.

IE359. The performance obligation to provide custodial services is satisfied over time as the services are provided. The Mint considers whether the payment terms include a significant financing component in accordance with paragraphs 59 – 64 of [draft] IPSAS [X] (ED 70).

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Published by: IFAC International Federation of Accountants®

(Back cover)

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In Period Review Instructions

Comment Deadline: November 18, 2019

Submit Comments to: Dave Warren (DaveWarren@ipsasb.org)

ED 71 – Revenue without Performance Obligations

REVIEW INSTRUCTIONS FOR ED 71

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 70:

   (a) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):

      (i) A significant portion of ED 71 is based on text from the current version of IPSAS 23.

         a. IPSAS 23 based text has been shaded Grey;

         b. Changes to update IPSAS 23 text to align current principles are shown in tracked changes; and

         c. Reviewers are asked to perform a review if time permits.

      (ii) Some original paragraphs were reviewed by the IPSASB at its September 2019 meeting.

         a. Reviewed original text has been shaded Orange;

         b. Changes to these paragraphs are shown in tracked changes; and

         c. Reviewers are asked to perform a review if time permits.

      (iii) Paragraphs which do not have any shading are new for this in period review.

         a. Reviewers are asked to review these paragraphs in detail for technical accuracy and consistency with the IPSASB's decisions from previous meetings.

      (iv) Amendments to Other IPSAS have been added since September 2019.

         a. Reviewers are asked to review these proposed amendments and comment on whether the proposed amendments are complete and accurate.

   (b) Basis for Conclusions:

      (i) Basis for Conclusions paragraphs were developed to provide an overview of the revenue project as it relates to revenue transactions without performance obligations and to explain key decisions made by the IPSASB.

      (ii) None of these paragraphs have been previously reviewed by the IPSASB. Reviewers are asked to review these paragraphs for consistency with the IPSASB's decisions from previous meetings.

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(c) Illustrative Examples:

(i) The majority of Illustrative Examples have been carried forward from the existing version of IPSAS 23.

a. IPSAS 23 based text has been shaded Grey;

b. Changes to update IPSAS 23 text to align current principles are shown in tracked changes; and

c. Reviewers are asked to perform a review if time permits.

Structure of ED 71

Objective

1. To provide the IPSASB with an overview of the structural changes Staff have made to IPSAS 23 when drafting ED 71.

Background

2. The text of ED 71 is largely based on IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Since IPSAS 23 was issued, the ordering of paragraphs has evolved. Specifically, ED 70 and ED 72 apply a different structure in how the principles are presented to readers.

Detail

3. In structuring ED 71, staff set out to achieve the following in line with the IPSASB's discussion at the September 2019 meeting:

   (a) Consistency with the structure of IPSAS 23;

   (b) Consistency with the structure across ED 70, ED 71 and ED 72; and

   (c) Consistency with the ED 71 flow chart outlining how to apply the [draft] Standard.

4. In determining how to structure ED 71, Staff determined it would not be able to meet all the objectives in paragraph 3. Staff concluded that structuring the ED 71 in a way similar to ED 70 and ED 72 allowed it to achieve:

   (a) Consistency across the revenue/transfers suite of standards; and

   (b) Order the paragraphs consistently with the ED 71 flow chart.

   An additional benefit in applying the ED 70 and ED 72 structure to ED 70 is that ED 70 is also consistent in its structure with other newly released IPSAS.

Structure

5. Staff have made the following changes to the structure of:

	IPSAS 23	ED 71	Explanation
Objective	1	1	Consistent Structure
Scope	2-6	2-8	Consistent Structure Guidance on Contribution from Owners and Hybrid Transactions moved to scoping section as they relate to scoping.
Definitions	7-28	9-30	Consistent Structure
Analysis of the Initial Inflow of Resources from Non-Exchange Transactions	29	31	Consistent Structure

Recognition of Assets	30-41	32-39	New Recognition Section Combines Assets/Revenues/Present Obligations
Measurement of Assets	42-43	50-62 Subsequent Measurement 69-71	New Measurement Section Combines Assets/Revenues/Present Obligations
Recognition of Revenue from Non-Exchange Transactions	44-47	46-49	New Recognition Section Combines Assets/Revenues/Present Obligations
Measurement of Revenue from Non-Exchange Transactions	48-49	65-68	New Measurement Section Combines Assets/Revenues/Present Obligations
Present Obligations Recognized as Liabilities	50-56	40-45	New Recognition Section Combines Assets/Revenues/Present Obligations
Measurement of Liabilities on Initial Recognition	57-58	63-64	New Measurement Section Combines Assets/Revenues/Present Obligations
Taxes	59-75	72-90	Consistent Structure
Transfers	76-105B	90-107 Specific Transaction Guidance located in AG35-AG58	Transfers guidance was moved to the AGs. Transfers guidance relates to application of the principles in ED 71 to specific transactions (Fines, Bequests, Gifts and Donations, etc.). Staff focused the core standard on principles and moved application of those principles to specific transactions to the AGs.
Disclosures	106-115	108-118	Consistent Structure
Transitional Provisions	116-123	121-128	Structure Switched with Effective Date
Effective Date	124-125	119-120	Structure Switched with Transitional Provisions

Decision required

6. Does the IPSASB agree that the structure achieves the objective of consistency?

Exposure Draft 71
[MONTH] [YEAR]
Comments due: [DATE]

IPSAS®

Proposed International Public Sector Accounting Standard ®

Revenue without Performance Obligations

IPSASB International Public Sector Accounting Standards Board®

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

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

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, *Revenue without Performance Obligations*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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

This Exposure Draft forms part of the IPSASB's project on Revenue.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about revenue without performance obligations.

Guide for Respondents

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

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

Specific Matter for Comment 1:

Do you agree with the IPSASB's proposals for Capital Transfers rather than using the requirements of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* (see paragraphs BC19-BC22)

[TO BE DEVELOPED FURTHER FOR THE DECEMBER 2019 IPSASB MEETING IN LIGHT OF COMMENTS ARISING FROM THE IN-PERIOD REVIEW]

~~IPSAS 23—REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)~~ED 71, *~~REVENUE FROM TRANSACTIONS~~ REVENUE WITHOUT PERFORMANCE OBLIGATIONS*

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Objective

1. The objective of this [draft] Standard is to prescribe requirements for the financial reporting of revenue arising from ~~non-exchange~~ transactions without performance obligations (as defined in [draft] IPSAS [X]~~)~~ (ED 70), *Revenue with Performance Obligations*)), other than ~~non-exchange~~from transactions that give rise to a public sector combination. This [draft] Standard deals with issues that need to be considered in recognizing and measuring revenue from ~~non-exchange~~ transactions without performance obligations, including the identification of contributions from owners.

Scope

2. **An entity (transfer recipient) that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue from ~~non-exchange~~ transactions without performance obligations. This [draft] Standard does not apply to:**

   (a) A public sector combination that is a non-exchange transaction;

   (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26-31 of IPSAS 42, *Social Benefits* (the insurance approach); ~~.~~

   (c) Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70)); and

   ~~(c)~~(d) The accounting for contributions from owners.

~~2.~~3. This [draft] Standard addresses revenue arising from ~~non-exchange~~ transactions without performance obligations. This includes transactions arising from binding arrangements and those not arising from a binding arrangement. Revenue arising from ~~exchange~~ transactions with performance obligations is addressed in ~~IPSAS 9, *Revenue from Exchange Transactions*~~ [draft] IPSAS [X] (ED 70). While revenues received by public sector entities arise from both ~~exchange and non-exchange~~ transactions with and without performance obligations, the majority of revenue of governments and other public sector entities is typically derived from ~~non-exchange~~ transactions without performance obligations, such as:

   (a) Taxes; and

   (b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received.

~~3.~~4. Revenue transactions without performance obligations are transactions where control of the resources is maintained by the entity (transfer recipient) as there is no requirement to transfer any goods or services to a transfer provider or a third-party beneficiary. The entity (transfer recipient) determines how the resources will be used and whether they will remain within the entity (transfer recipient) or be used outside the entity. Transactions within the scope of this [draft] Standard differ from those within the scope of [draft] IPSAS [X] (ED 70) where a performance obligation does require a transfer of goods or services to either the purchaser (transfer provider) or a third-party beneficiary.

5. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily

involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Public sector combinations are accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

Contributions from Owners

6. Contributions from owners are defined in IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 7 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

7. A contribution from owners may be evidenced by, for example:

(a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;

(b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or

(c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

Hybrid Transactions

~~4.~~8. Where an asset is acquired by means of a transaction that has components with performance obligations and components without performance obligations~~an exchange component and a non-exchange component~~, the entity (transfer recipient) recognizes the revenue from the component with performance obligations ~~exchange component~~ according to the principles and requirements of [draft] IPSAS [X] (ED 70)~~other IPSASs~~. The revenue component without performance obligations ~~non-exchange component~~ is recognized according to the principles and requirements of this [draft] Standard. In determining whether a transaction has identifiable performance obligation components~~exchange and non-exchange components~~, professional judgment is exercised. Where it is not possible to distinguish between the components with performance obligations and the components without performance obligations~~separate exchange and non-exchange components~~, the transaction is accounted for in accordance with [draft] IPSAS [X] (ED 70). [Draft] IPSAS [X] (ED 70) paragraphs AG70-AG71 provide additional guidance.~~treated as a non-exchange transaction~~

Definitions

~~5.~~9. **The following terms are used in this [draft] Standard with the meanings specified:**

~~**Conditions on transferred assets are stipulations that specify that the future economic**~~

~~benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.~~

A capital transfer is an inflow, that arises from a binding arrangement, of cash or another asset with a specification that the transfer recipient acquires or constructs a non-current non-financial asset that will be controlled by the transfer recipient.

~~Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.~~

Eligible expenditure is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement.

An enforceable activity is an action specified in a binding arrangement that must be completed by a transfer recipient.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

~~Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.~~

~~Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.~~

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from ~~non-exchange~~ transactions without performance obligations, other than ~~taxes~~contributions from owners. Transfers include taxes.

A transfer provider is an entity that provides a good, service or other asset to another entity without receiving any good, service or other asset in return.

A transfer recipient is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity.

The transaction price (for a revenue transaction without a performance obligations) is the amount of inflows of future economic benefits or service potential an entity expects to be entitled in a transactions without performance obligations, other than contributions from owners.

~~Transfer revenue is a transaction in which an entity receives a good, service, or other asset from another entity without a requirement to transfer any good, service or other asset in~~

~~**return.**~~

~~**Terms defined in other IPSASs are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.**~~

10. The following terms are defined in [draft] IPSAS [X] (ED 70~~, *Revenue with Performance Obligations*~~) and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

A binding arrangement;

Control of an Asset:

A performance obligation; and

A third-party beneficiary.

Revenue is defined in IPSAS 1, *Presentation of Financial Statements*

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

~~**Non-Exchange Transactions**~~**Performance Obligations**

~~In some transactions, it is clear that there is an exchange of approximately equal value. These are exchange transactions and are addressed in other IPSASs.~~

~~In other transactions, an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. While the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.~~

~~There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately. For example, an entity receives CU6 million funding from a multi-lateral development agency. The agreement stipulates that the entity must repay CU5 million of the funding received over a period of 10 years, at 5% interest when the market rate for a similar loan is 11%. The entity has effectively received a CU1 million grant (CU6 million received less CU5 million to be repaid) and entered into CU5 million concessionary loan which attracts interest at 6% below the market interest rate for a similar loan. The CU1 million grant received, as well as the off-market portion of the interest payments in terms of the agreement, are non-exchange transactions. The contractual capital and interest payments over the period of the loan are exchange transactions.~~

~~There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.~~

~~A performance obligation is defined at paragraph 7 of draft IPSAS]X] (ED 70), as a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.~~

~~Transactions that have performance obligations are outside the scope of this Standard and draft IPSAS [X] (ED 70) should be applied. Draft IPSAS [X] (ED 70) paragraphs 21 – 29 provides further guidance on identifying a performance obligation.~~

Revenue

~~6.~~11. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity (transfer recipient), which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

~~7.~~12. Where an entity (transfer recipient) incurs some cost in relation to revenue arising from a ~~non-exchange~~ transaction without performance obligations, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity (transfer recipient) is required to pay delivery and installation costs in relation to the transfer of an item of ~~property,~~ plant~~, a nd equipment~~ to it from another entity (transfer provider), those costs are recognized separately from revenue arising from the transfer of the item of ~~property,~~ plant~~, and equipment~~. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17, *Property, Plant, and Equipment*.

Enforceable Activities and Eligible Expenditure

13. Goods, services, or other assets may be transferred by a transfer provider with the expectation and/or understanding that they will be used in a particular way and, therefore, that the entity (transfer recipient) will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the entity (transfer recipient), these terms require either an enforceable activity to be completed or eligible expenditure to be incurred.

14. Enforceable activities and eligible expenditure are enforceable through legal or equivalent means. If a term in law~~s~~ or regulation~~s~~ or other binding arrangement~~s~~ is unenforceable, it is not an enforceable activity or eligible expenditure as defined by this [draft] Standard. Constructive obligations do not arise from enforceable activities or the requirement to incur eligible expenditure. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, establishes requirements for the recognition and measurement of constructive obligations.

Present Obligation

~~8.~~15. Within the context of this [draft] Standard, an enforceable activity, or a requirement to incur eligible expenditure that arise from binding arrangements are both present obligations.

~~9.~~16. A present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid an outflow or resources.

Enforceable Activity

~~10.~~17. An enforceable activity is a particular action, stated in a binding arrangement, the transfer provider can legally compel the entity (transfer recipient) to perform with the transfer provided, such as construct a hospital or conduct a form of research. An enforceable activity is imposed by the transfer provider as part of the terms of the transfer creating a present obligation for the entity (transfer recipient).

~~11.~~18. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer in the delivery of the enforceable activities or either return them to the transfer provider or incur another form of penalty

~~12.~~19. An enforceable activity does not meet the requirements for a performance obligation as defined in [draft] IPSAS [X] (ED 70) because there is no requirement for the transfer recipient to transfer distinct goods or services to either the transfer provider or a third-party beneficiary. For example, a transfer recipient may receive funding to conduct a research project whereby any intellectual property obtained from that research will remain under the control of the transfer recipient.

Eligible Expenditure

~~13.~~20. A binding arrangement may require a transfer to be used by an entity (transfer recipient) for a particular purpose and incur eligible expenditure for that purpose, but does not have identifiable enforceable activities.

~~14.~~21. Where a requirement to incur eligible expenditure exists in a binding arrangement, the entity (transfer recipient) incurs a present obligation to use the transfer as directed. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer on eligible expenditure or else either return the transfer to the transfer provider or incur another form of penalty.

~~15.~~22. There is no requirement for the transfer recipient to transfer distinct goods or services to the transfer provider or a third-party beneficiary. Eligible expenditure must be incurred by the transfer recipient and be able to be identified and verifiable so that the transfer provider can determine that the transfer was used as intended.

~~*Conditions on Transferred Assets*~~

~~*Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognizes an asset that is subject to a condition, the recipient also incurs a liability.*~~

Enforceability of binding arrangements – Substance over form

~~16. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity will still recognize the gross amounts in its financial statements, that is, the entity will recognize a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.~~

~~17. Restrictions on Transferred Assets~~

~~18. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to~~

~~the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal, or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.~~

~~19. Substance over Form~~

~~20. In determining whether a stipulation is a condition or a restriction, it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.~~

~~21. In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.~~

~~22. The definition of a condition imposes on the recipient entity a performance obligation – that is, the recipient is required to consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because, in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.~~

23. To satisfy the criteria for recognition as a liability, it is necessary that the transfer recipient cannot avoid an outflow of resources and the transaction must be enforceable. Therefore ~~will be probable~~, ~~and performance against the condition~~completion of an enforceable activity ~~is required~~ or incurring eligible expenditure constitutes an outflow of resources, as does a return of resources or the imposition of some other penalty in the event that the transfer recipient breaches the terms of the binding arrangement.

24. In determining whether a binding arrangement is enforceable the transfer recipient considers whether the transfer provider would enforce the arrangement in the event of a breach. If past experience with the transfer provider indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. However, if the transfer recipient has no experience with the transfer provider, or has not previously breached a binding arrangement that would prompt the transfer provider to enforce the arrangement, and it has no evidence to the contrary, it would assume that the transfer provider would enforce the binding arrangement and, therefore, enforceability has substance. ~~and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.~~

25. As an administrative convenience, a transfer may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity (transfer recipient) will still recognize the gross amounts in its financial statements: that is, the entity (transfer recipient) will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

~~23.~~

~~24.~~26. In some cases, an asset may be ~~transferred~~ received by the transfer recipient subject to the ~~stipulation~~ requirement that it be returned to the ~~transferor~~ transfer provider if a specified future event does not occur. This may occur where, for example, a national government provides funds to a provincial government entity (transfer recipient) subject to the ~~stipulation~~ requirement that the entity (transfer recipient) raise a matching contribution. In these cases, a return obligation does not arise until such time as it is expected that the ~~stipulation~~ requirement will be breached, and a liability is not recognized until the recognition criteria have been satisfied.

~~25.~~27. However, recipients will need to consider whether these transfer~~ss revenues~~ are in the nature of an advance receipt. In this [draft] Standard, advance receipt refers to resources received prior to a taxable event or an ~~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 a~~n exchange~~ transaction with performance obligations, they will be dealt with in accordance with ~~IPSAS 9~~[draft] IPSAS [X] (ED 70).

Taxes

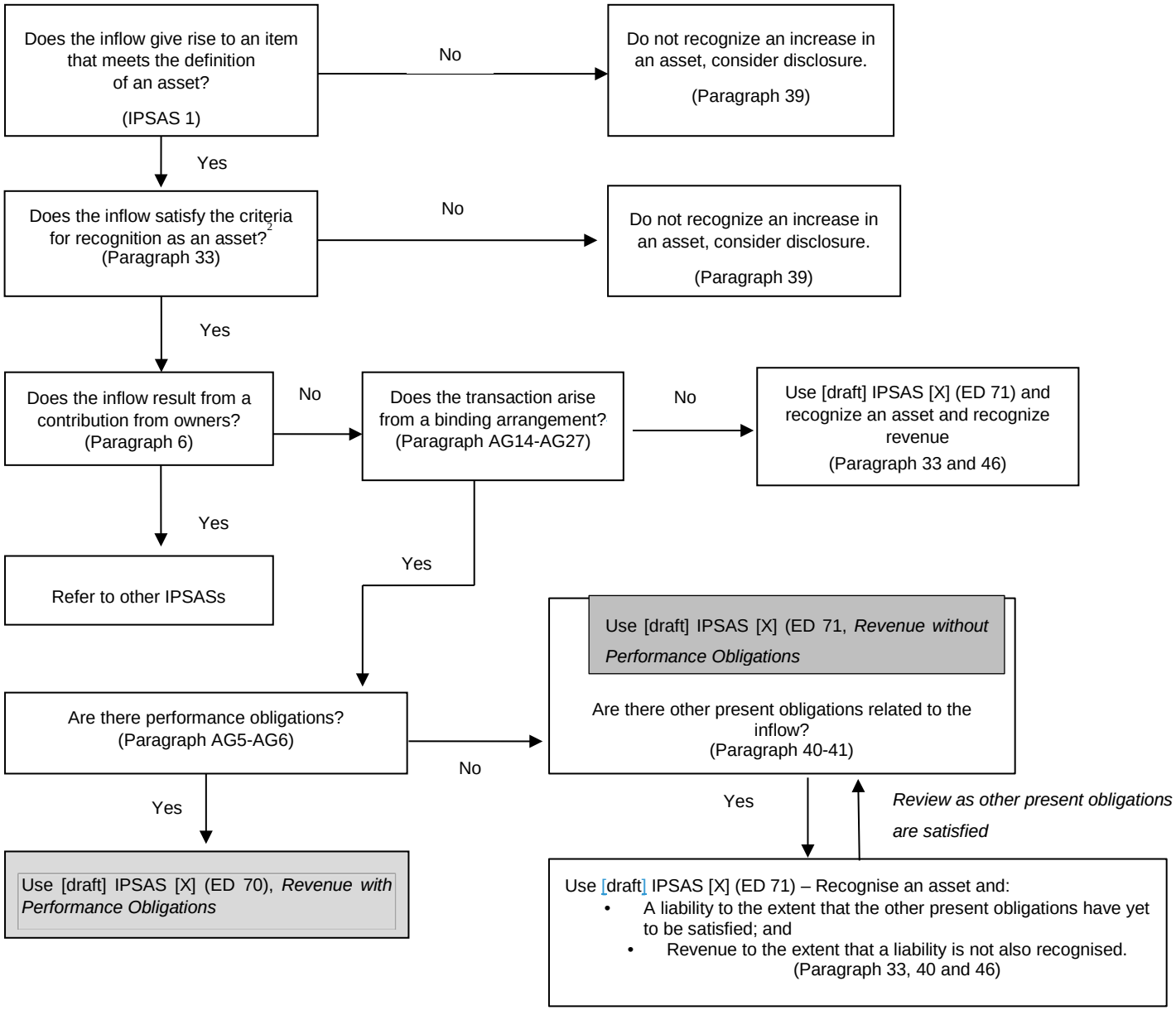
~~26.~~28. Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 9 as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Noncompulsory transfer~~s revenues~~ to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of ~~non-exchange~~ transactions without performance obligations. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

~~27.~~29. Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

~~28.~~30. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Analysis of the Initial Inflow of Resources from ~~Non-Exchange~~ Transactions without Performance Obligations

~~29.~~31. An entity (transfer recipient) will recognize an asset arising from a ~~non-exchange~~ transaction without performance obligations when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity (transfer recipient) decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity (transfer recipient) will recognize as a liability. These obligations will be either a requirement to complete enforceable activities or incur eligible expenditure. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed, and any contributions from owners are accounted for separately. Consistent with the approach set out in this [draft] Standard, entities will analyze ~~non-exchange~~ transactions without performance obligations to determine which elements of general purpose financial statements will be recognized as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity (transfer recipient) undertakes when there is an inflow of resources to determine whether revenue arises. ~~This [draft] Standard follows the structure of the flowchart~~The following flowchart identifies the relevant paragraphs in this [draft] Standard related to asset, liability and revenue recognition and measurement. Requirements for the treatment of transactions are set out in paragraphs 32–118.



* The flowchart is illustrative only, it does not take place of this Standard. It is provided as an aid to interpreting this Standard.

* In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

* In determining whether the entity has satisfied all of the present obligations, the application of the definition of conditions on a transferred asset, and the criteria for recognizing a liability, are considered.

Recognition

~~of~~ Assets

~~30.~~32. Assets are defined in IPSAS 1 as resources controlled by an entity ~~(transfer recipient)~~ as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity ~~(transfer recipient)~~.

~~31.~~33. **An inflow of resources from a ~~non-exchange~~ transaction without performance obligations, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:**

(a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity (transfer recipient); and

(b) The fair value of the asset can be measured reliably.[1]

Control of an Asset

~~32.~~34. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's (transfer recipient's) assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 97, entities may, but are not required, to recognize services in-kind.

35. An announcement of an intention to transfer resources to a public sector entity (transfer recipient) is not of itself sufficient to identify resources as controlled by a transfer recipient. For example, if a public school were destroyed by a forest fire and a government (transfer provider) announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where an ~~transfer~~ agreement is required before resources can be transferred, an ~~recipient~~ entity (transfer recipient) will not identify the resources as controlled until such time as the agreement is binding, because the ~~recipient~~ entity (transfer recipient) cannot exclude or regulate the access of the ~~transferor~~ transfer provider to the resources. In many instances, the entity (transfer recipient) will need to establish enforceability of its control of resources before it can recognize an asset. If an~~an~~ entity (transfer recipient) does not have an enforceable claim to resources, it cannot exclude or regulate the transfer~~or's~~ provider's access to those resources.

Appropriations

~~33.~~36. When a binding arrangement specifies that the resources to be transferred to the entity (transfer recipient) by a transfer provider are subject to the appropriation being approved, the entity (transfer recipient) must consider substance over form. The limitation (that the resources to be transferred are subject to the appropriation being approved) has substance if the transfer provider is prohibited from

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

transferring the resources until the appropriation is approved. Paragraphs AG28-AG32 provides additional guidance.

Past Event

~~34.~~37. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

~~35.~~38. An inflow of resources is probable when the inflow is more likely than not to occur. The entity (transfer recipient) bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transfer~~or~~ provider. For example, where (a) a government (transfer provider) agrees to transfer funds to a public sector entity (~~reporting entity~~(transfer recipient)), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

39. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

Present Obligations Recognized as Liabilities

~~36.~~40. **A present obligation arising from a ~~non-exchange~~ transaction without a performance obligations~~s~~ that meets the definition of a liability shall be recognized as a liability when, and only when:**

(a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and

(b) A reliable estimate can be made of the amount of the obligation.

Present Obligation

~~37.~~41. A present obligation is a duty to act or perform in a certain way, and may give rise to a liability in respect of any ~~non-exchange~~ transaction without a performance obligation. Present obligations may be imposed by requirements ~~in~~stipulations in laws~~in~~ laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

~~Even though transactions with performance obligations are outside the scope of this [draft] Standard, as noted in paragraph , a performance obligation is a particular type of present obligation, therefore transactions that create present obligations that are not performance obligations are within the scope of this [draft] Standard.~~

~~38.~~42. In many instances, taxes are levied and assets are transferred to public sector entities in ~~non-exchange~~ transactions without performance obligations pursuant to laws, regulation, or other binding arrangements that impose ~~stipulations~~ requirements that they be used for particular purposes. For example:

(a) Taxes, the use of which is limited by laws or regulations to specified purposes;

(b) Transfers, established by a binding arrangement that ~~includes~~ require ~~conditions~~enforceable activities or eligible expenditure:

(i) From national governments to provincial, state or local governments;

(ii) From state/provincial governments to local governments;

(iii) From governments to other public sector entities;

(iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

(v) From donor agencies to governments or other public sector entities.

~~39.~~43. In the normal course of operations, an ~~reporting~~ entity (transfer recipient) may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognized until the taxable event occurs.

~~40.~~44. If an entity (transfer recipient) receives resources prior to the existence of a binding ~~transfer~~ arrangement, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

~~Conditions on~~Enforceable ~~a~~Activities or ~~e~~Eligible ~~e~~Expenditure on a Transferred Asset

~~41. Conditions n~~ Enforceable activities or a requirement for eligible expenditure to be incurred on a transferred asset give rise to a present obligation on initial recognition that will be recognized in accordance with paragraph 40.

~~42.~~45.

~~Recognition of~~ Revenue from ~~Non-Exchange~~ Transactions without Performance Obligations

~~43.~~46. **An inflow of resources from a ~~non-exchange~~ transaction without performance obligations recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

~~44.~~47. **As an entity (transfer recipient) satisfies a present obligation recognized as a liability in respect of an inflow of resources from a ~~non-exchange~~ transaction without performance obligations recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.**

~~45.~~48. When an entity (transfer recipient) recognizes an increase in net assets as a result of a ~~non-exchange~~ transaction without performance obligations, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the ~~non-exchange~~ transaction without performance obligations, when the liability is subsequently reduced, because the taxable event occurs or an ~~condition~~ enforceable activity is satisfied or eligible expenditure is incurred, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.

~~46.~~49. The timing of revenue recognition is determined by the nature of the ~~conditions~~ requirements in a binding arrangement (if any) and their settlement. For example, if a ~~condition~~ binding arrangement has enforceable activities, ~~specifies that~~ the entity (transfer recipient) ~~is to provide goods or services to third parties,~~ will recognize revenue as those enforceable activities are completed. Similarly, if a

binding arrangement requires the resources to be consumed on eligible expenditure, the entity (transfer recipient) will recognize revenue as those eligible expenses are incurred. ~~or return unused funds to the transferor, revenue is recognized as goods or services are provided.~~

Measurement

~~**Binding Arrangement**~~

~~**A binding arrangement is defined in ED 70 as an arrangement that confers enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Paragraphs AG7-AG13 of ED 70 provide guidance on binding arrangements.Transactions without performance obligations that do not arise from a binding arrangement are within the scope of this [draft] Standard. Further, some transactions without performance obligations and are also within the scope of this [draft] Standard. T, these are transactions that although binding do not have erformance obligations defined in ED 70 (see paragraphs 33 – 35).**~~

~~**Performance Obligations**~~

~~**This [draft] Standard only addresses transactions that do not arise from binding arrangements with performance obligations as defined in ED 70.**~~

~~**A performance obligation is defined in ED 70 as a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.ED 70 paragraphs AG3-4 provides additional guidance on identifying performance obligations.**~~

~~**Revenue from transactions with performance obligations are outside the scope of this [draft] standard and accounted for under ED 70. Consequently, revenue from transactions without performance obligations is within the scope of this [draft] Standard.Present Obligations**~~

~~**Even though transactions with performance obligations are outside the scope of this [draft] Standard, as noted in paragraph 36, a performance obligation is a particular type of present obligation, therefore transactions that create present obligations that are not performance obligations are within the scope of this [draft] Standard. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Therefore, in the context of this [draft] Standard a present obligation can only arise from a binding arrangement.**~~

~~**Exchange and Non-Exchange Components of a Transaction**~~

~~**Paragraphs 40 and 41 below address circumstances in which an entity gains control of resources embodying future economic benefits or service potential other than by contributions from owners.**~~

~~**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.~~

~~Measurement of~~ Assets on Initial Recognition

Cash Transfer

~~47.~~50. **A cash asset acquired through a transaction without performance obligations shall initially be measured at its transaction price as at the date of acquisition (see paragraphs 52-62 below).**

Non-Cash Transfer

~~48.~~51. **A non-cash asset acquired through a ~~non-exchange~~ transaction without performance obligations shall initially be measured at its fair value as at the date of acquisition.**

DETERMINING THE TRANSACTION PRICE

~~49.~~52. An entity shall consider the terms of the transaction and its customary practices to determine the transaction price. The transaction price is the amount of inflows of future economic benefit or service potential to which an entity expects to be transferred in a revenue transaction without performance obligations. The inflow in a transaction may include fixed amounts, variable amounts, or both.

~~50.~~53. Credit risk is not considered when determining the amount to which the entity (transfer recipient) expects to receive. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41, Financial Instruments.

~~51.~~54. The nature, timing and amount of the transfer affect the estimate of the transaction price. When determining the transaction price, an entity (transfer recipient) shall consider the effects of all of the following:

(a) Variable inflows (see paragraphs 56-59 and 62); and

(b) Constraining estimates of variable inflows (see paragraphs 60-61).

~~52.~~55. For the purpose of determining the transaction price, an entity (transfer recipient) shall assume that the inflow will be transferred to the entity (transfer recipient) in accordance with the terms of the transaction.

Variable Inflows

~~53.~~56. If the inflow in the transaction includes a variable amount, an entity (transfer recipient) shall estimate the amount of the inflow to which the entity (transfer recipient) expects to collect from the transfer provider.

~~54.~~57. An amount of an inflow can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The inflow can also vary if an entity's (transfer recipient) entitlement to the inflow is contingent on the occurrence or non-occurrence of a future event. For example, a taxable event occurs when an individual dies. However, the amount of the cash inflow is dependent on the size of the estate which may be determinable in a period subsequent to the reporting period.

~~55.~~58. An entity (transfer recipient) shall estimate an amount of variable inflows by using either of the following methods, depending on which method the entity (transfer recipient) expects to better predict the amount of inflows to which it expects to receive:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the

amount of variable inflows if an entity (transfer recipient) has a large number of transactions with similar characteristics; or

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the transaction). The most likely amount may be an appropriate estimate of the amount of variable inflows if the transaction has only two possible outcomes (for example, an entity (transfer recipient) either completes construction of infrastructure on schedule or not).

~~56.~~59. An entity (transfer recipient) shall apply one method consistently when estimating the effect of an uncertainty on an amount of variable inflows which the entity (transfer recipient) expects to receive. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity (transfer recipient) and shall identify a reasonable number of possible consideration amounts. The information that an entity (transfer recipient) uses to estimate the amount of variable inflows would typically be similar to the information that the entity's (transfer recipient) management uses to estimate the amount receivable.

Constraining Estimates of Variable Inflows

~~57.~~60. An entity (transfer recipient) shall measure revenue without performance obligations in accordance with paragraph 52 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable inflow is subsequently resolved.

~~58.~~61. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable inflow is subsequently resolved, an entity (transfer recipient) shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of inflow is highly susceptible to factors outside the entity's (transfer recipient) influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the inflow when it is non-cash.

(b) The uncertainty about the amount of inflow is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event. For example, the amount of inheritance tax receivable from a large estate may take years to determine after the death of the individual.

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

(d) The transaction has a large number and broad range of possible inflow amounts.

Reassessment of Variable Inflows

~~59.~~62. At the end of each reporting period, an entity (transfer recipient) shall update the estimated transaction price (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

~~**Consistent with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, and IPSAS 17, and IPSAS 41, *Financial* Instruments, assets acquired through non-exchange transactions**~~ **without**

~~performance obligations are measured at their fair value as at the date of acquisition.~~

~~Measurement of~~ Liabilities on Initial Recognition

~~60.~~63. **The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.**

~~61.~~64. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

~~Measurement of~~ Revenue from ~~Non-Exchange~~ Transactions without Performance Obligations

~~62.~~65. **Revenue from ~~non-exchange~~ transactions without performance obligations shall be measured at the amount of the increase in net assets recognized by the entity (transfer recipient)**.

66. When, as a result of a ~~non-exchange~~ transaction without a performance obligation, an entity (transfer recipient) recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 52, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured in accordance with the requirements of paragraph 63, and the amount of the increase in net assets, if any, will be recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs, or an ~~condition~~ enforceable activity is completed or eligible expenditure is incurred~~is satisfied~~, the amount of the reduction in the liability will be recognized as revenue.

Allocating Revenue from Enforceable Activities

~~63.~~67. Revenue from enforceable activities is recognized as enforceable activities are completed. The amount of revenue recognized shall be equivalent to the amount of resources consumed in completing that enforceable activities

Allocating Revenue from incurring Eligible Expenditure

~~64.~~68. Revenue from incurring eligible expenditure is recognized as that eligible expenditure is incurred. The amount of revenue recognized shall be equivalent to the amount of resources consume in incurring eligible expenditure.

Subsequent Measurement of Receivables

Contractual Receivables

~~65.~~69. Contract receivables recognized in accordance with this [draft] Standard meet the definition of a financial asset and shall be accounted for in accordance with the requirements in IPSAS 41, *Financial Instruments*.

Non-Contractual Receivables

~~66.~~70. An asset that is a non-contractual receivable shall be measured subsequently at amortized cost in accordance with paragraphs 69–70 of IPSAS 41 when:

(a) The entity's (transfer recipient) objective is to hold the non-contractual receivable in order to collect the cash flows; and

(b) The terms of the non-contractual receivable give rise on specified dates to cash flows that are solely payments relating to the revenue within the scope of this [draft] Standard.

~~67.~~71. Where a non-contractual receivable does not satisfy the requirements in paragraph 70, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

~~68. **Stipulations are defined in paragraph 7 Paragraphs 14–25 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyzes any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.**~~

Taxes

~~69.~~72. **An entity (transfer recipient) shall recognize an asset in respect of taxes and other compulsory contributions and levies when the taxable event or equivalent event for other compulsory contributions and levies occurs and the asset recognition criteria are met.**

~~70.~~73. Resources arising from taxes and other compulsory contributions and levies satisfy the definition of an asset when the entity (transfer recipient) controls the resources as a result of a past event (the taxable event or equivalent event for other compulsory contributions and levies) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes and other compulsory contributions and levies satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event or equivalent event for other compulsory contributions and levies by the taxpayer (or equivalent person or entity for other compulsory contributions or levies).

~~71.~~74. Taxation revenue and revenue from other compulsory contributions and levies arises only for the government that imposes the tax or other compulsory contribution or levy, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state ~~taxation~~ agency collects income tax and other compulsory contributions and levies for the state government and several city governments, it does not recognize revenue in respect of the taxes and other compulsory contributions and levies collected – rather, the individual governments that impose the taxes and other compulsory contributions and levies recognize assets and revenue in respect of the taxes and other compulsory contributions and levies.

~~72.~~75. Taxes and other compulsory contributions and levies do not satisfy the definition of contributions from owners, because the payment of taxes and other compulsory contributions and levies does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

~~73.~~76. Taxes and other compulsory contributions are ~~non-exchange a transaction~~a transaction without performance obligations because the taxpayer (or equivalent person or entity for other compulsory contributions and levies) transfers resources to the government, ~~without receiving approximately equal value directly in exchange~~and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer (or equivalent person or entity for other compulsory contributions and levies) may benefit from a range of social policies established by the government, ~~these are not provided~~the taxpayer has no control over which benefits they receive ~~directly i~~as a result of ~~n exchange as consideration for~~ the payment of taxes and other compulsory contributions and levies.

77. As noted in paragraph 42, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any ~~conditions~~ enforceable activities or eligible expenditure relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the ~~condition is satisfied~~either the enforceable activity is completed or the eligible expenditure is incurred and the liability is reduced. However, in most cases, taxes or other contributions and levies imposed ~~levied~~ for specific purposes are not expected to give rise to a liability, because the specific purposes do not amount to ~~restrictions not conditions~~and an enforceable activity or eligible expenditure. ~~are not~~

The Taxable Event or Equivalent Event for Other Compulsory Contributions and Levies

~~74.~~78. Similar types of taxes are levied in many jurisdictions. The reporting entity (transfer recipient) analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:

(a) Income tax is the earning of assessable income during the taxation period by the taxpayer;

(b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

(c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

(d) Customs duty is the movement of dutiable goods or services across the customs boundary;

(e) Death duty is the death of a person owning taxable property; and

(f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

~~75.~~79. Similar types of other compulsory contributions and levies occur in many jurisdictions. The reporting entity (transfer recipient) analyzes the law relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

(a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

(b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

(c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes

~~76.~~80. Consistent with the definitions of assets, liabilities, and the requirements of ~~paragraph~~ paragraph 72, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the taxable event or equivalent event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's (transfer recipient's) entitlement to the taxes or equivalent event for other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied (see ~~paragraph~~ paragraph 81), notwithstanding that the entity (transfer recipient) has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event or equivalent event for other compulsory contributions and levies occurs. When the taxable event or equivalent event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

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

~~77.~~81. Paragraph 52 requires that assets arising from taxation transactions and other compulsory contribution and levy transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions and other compulsory contribution and levy transactions are measured at the best estimate of the inflow of resources to the entity (transfer recipient). Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions and other compulsory contribution and levy transactions that conform with the requirements of paragraph 52. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions and other compulsory contribution and levy transactions will flow to the government, and the fair value of the resultant assets.

~~78.~~82. Where there is a separation between the timing of the taxable event or equivalent event for other compulsory contributions and levies and collection of taxes contributions or levies, public sector entities may reliably measure assets arising from taxation transactions and other compulsory contribution and levy transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers (or equivalent person or entity for other compulsory contributions and levies), declarations made by taxpayers (or equivalent person or entity for other compulsory contributions and levies), and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

(a) The tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

(b) Taxpayers (or equivalent person or entity for other compulsory contributions and levies) failing to file returns on a timely basis;

(c) Valuing non-monetary assets for tax assessment purposes;

(d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

(e) The potential that the financial and political costs of rigorously enforcing the tax laws (or laws relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;

(f) The tax law permitting taxpayers to defer payment of some taxes; and

(g) A variety of circumstances particular to individual taxes and jurisdictions.

~~79.~~83. Measuring assets and revenue arising from taxation transactions and other compulsory contribution and levy transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers (or equivalent person or entity for other compulsory contributions and levies) in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

~~80.~~84. In some cases, the assets arising from taxation transactions and other compulsory contribution and levy transactions and the related revenue cannot be reliably measured until sometime after the taxable event or equivalent event for other compulsory contributions and levies occurs. This may occur if a tax, contribution or levy base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event or equivalent event for other compulsory contributions and levies. However, there are exceptional circumstances when several reporting periods will pass before a taxable event or equivalent event for other compulsory contributions and levies results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. ~~Consequently~~Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

Measurement of Taxes with Long Collection Periods

~~81.~~85. The measurement of assets arising from taxation transactions and other compulsory contributions and levies is limited to the amount of cumulative revenue that is highly probably not to reverse in accordance with paragraph 60.

Expenses Paid Through the Tax System and Tax Expenditures

~~82.~~86. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

~~83.~~87. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

~~84.~~88. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

~~85.~~89. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

~~86.~~90. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Transfers

~~87.~~91. **Subject to paragraph 97, an entity (transfer recipient) shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**

Recognition of Revenue from Capital Transfers

~~88.~~92. **An inflow of resources from capital transfers that do not arise from a binding arrangement shall be recognized as revenue when those resources are controlled by the entity (transfer recipient).**

~~89.~~93. **An inflow of resources from a capital transfer, that arise from a binding arrangement, recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

~~90.~~94. As an entity (transfer recipient) satisfies the enforceable activities or incurs eligible expenditure as set out in the binding arrangement, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

~~91.~~95. Notwithstanding paragraph 94, if a capital transfer agreement does not specifically identify any enforceable activities or requirement to incur eligible expenditure, revenue shall be recognized on a systematic basis that best reflects the period of consumption of the capital transfer (e.g., over the period of construction).

~~92.~~96. For the purposes of this [draft] Standard, capital transfer shall only be applied to the procurement or construction of the non-financial asset and not for any addition obligations regarding the subsequent use of that asset.

Services In-kind

97. **An entity (transfer recipient) may, but is not required to, recognize services in-kind as revenue and as an asset.**

~~93.~~98. Although recognition of services in-kind is not required by this [draft] Standard, entities (transfer recipients) are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's (transfer recipient's) operations.

~~94.~~99. Services in-kind are services provided by individuals to public sector entities ~~entities in a non-exchange transaction without performance obligations~~for no consideration. ~~These~~ Some services in-kind meet the definition of an asset because the entity (transfer recipient) controls a resource from which future economic benefits or service potential are expected to flow to the entity (transfer recipient). These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity (transfer recipient) will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

~~95.~~100. Public sector entities may be transfer recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

(a) Technical assistance from other governments or international organizations;

(b) Persons convicted of offenses may be required to perform community service for a public sector entity;

(c) Public hospitals may receive the services of volunteers;

(d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) Local governments may receive the services of volunteer fire fighters.

~~96.~~101. Some services in-kind do not meet the definition of an asset because the entity (transfer recipient) has insufficient control over the services provided. In other circumstances, the entity (transfer recipient) may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities (transfer recipients) may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity (transfer recipient) may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity (transfer recipient) would acquire if the services in-kind were not available.

~~97.~~102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this [draft] Standard does not require the recognition of services in-kind. Paragraph 110, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities (transfer recipients), the services provided by volunteers are not material in amount, but may be material by nature.

~~98.~~103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and

cash flows of the entity (transfer recipient). The extent to which an entity (transfer recipient) is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity (transfer recipient) that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

~~99.~~104. Pledges are unenforceable undertakings to transfer assets to the ~~recipient~~ entity (transfer recipient) Pledges do not meet the definition of an asset, because the ~~recipient~~ entity (transfer recipient) is unable to control the access of the transfer~~or~~ provider to the future economic benefits or service potential embodied in the item pledged. Entities (transfer recipients) do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the ~~recipient~~ entity (transfer recipient), it is recognized as a gift or donation, in accordance with paragraphs AG54–AG58 ~~above~~. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

~~100.~~105. Where an entity (transfer recipient) receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity (transfer recipient) will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the event that makes the transfer arrangement binding occurs, and all other ~~conditions~~ ~~requirements~~enforceable activities under the agreement are fulfilled or eligible expenditure incurred. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

~~Concessionary Loans~~

~~101.~~106. ~~105A.~~ Concessionary loans are loans received by an entity (transfer recipient) at below market terms. The portion of the loan that is repayable, along with any interest payments, is ~~an exchange transaction and is~~ accounted for in accordance with IPSAS 41, *Financial Instruments*~~.~~. An entity (transfer recipient) considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is ~~non-exchange~~ revenue without performance obligations that should be accounted for in accordance with this [draft] Standard.

~~102.~~107. ~~105B.~~ Where an entity (transfer recipient) determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is ~~non-exchange~~ revenue without performance obligations, an entity (transfer recipient) recognizes the difference as revenue, except if a present obligation exists, e.g., where specific ~~conditions~~ requirements are imposed on the transferred assets by the ~~recipient~~ transfer recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity (transfer recipient) satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

Disclosures

~~103.~~108. **An entity (transfer recipient) shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

(a) The amount of revenue from ~~non-exchange~~ transactions without performance obligations recognized during the period by major classes showing separately:

(i) Taxes, showing separately major classes of taxes;

~~(i)~~(ii) Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and

~~(ii)~~(iii) Transfers, showing separately major classes of transfer revenue.

(b) The amount of receivables recognized in respect of ~~non-exchange revenue~~revenue without performance obligations;

(c) The amount of liabilities recognized in respect of transferred assets subject to ~~conditions~~enforceable activities or a requirement to incur eligible expenditure;

(d) ~~(cA)~~ The amount of liabilities recognized in respect of concessionary loans that are subject to ~~conditions~~ requirements on transferred assets;

~~(e) The amount of assets recognized that are subject to restrictions and the nature of those restrictions;~~

~~(f)~~(e) The existence and amounts of any advance receipts in respect of ~~non-exchange~~ transactions without performance obligations; and

~~(g)~~(f) The amount of any liabilities forgiven.

~~104.~~109. **An entity (transfer recipient) shall disclose in the notes to the general purpose financial statements:**

(a) The accounting policies adopted for the recognition of revenue from ~~non-exchange~~ transactions without performance obligations;

(b) For major classes of revenue from ~~non-exchange~~ transactions without performance obligations, the basis on which the fair value of inflowing resources was measured;

(c) For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity (transfer recipient) cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy; ~~and~~

(d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received; and

~~(d)~~(e) ~~.~~ Qualitative and quantitative information about services in-kind that have been recognized on the face of the general purpose financial statements.

~~105.~~110. Entities (transfer recipients) that do not recognize service in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received~~, including those not recognized~~, particularly if those services in-kind received are integral to the operations of the entity (transfer

recipient). The extent to which an entity (transfer recipient) is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

~~106.~~111. The disclosures required by paragraphs 108 and 109 assist the reporting entity (transfer recipient) to satisfy the objectives of financial reporting, as set out in IPSAS 1, which is to provide information useful for decision making, and to demonstrate the accountability of the entity (transfer recipient) for the resources entrusted to it.

~~107.~~112. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's (transfer recipient's) exposure to particular revenue streams.

~~108.~~113. ~~Conditions and restrictions~~Enforceable activities and eligible expenditure impose limits on the use of assets, which impacts the operations of the entity (transfer recipient). Disclosure of ~~(a)~~ the amount of liabilities recognized in respect of ~~conditions~~enforceable activities and eligible ~~, and (b) the amount of assets subject to restrictions assists~~expenditure assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities (transfer recipients) are encouraged to disaggregate by class the information required to be disclosed by paragraph 108(c).

~~109.~~114. Paragraph 108(e) ~~–~~requires entities (transfer recipients) to disclose the existence of advance receipts in respect of ~~non-exchange~~ transactions without performance obligations. These liabilities carry the risk that the entity (transfer recipient) will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgments about the entity's (transfer recipient's) future revenue and net asset position.

115. As noted in paragraph 82, in many cases an entity (transfer recipient) will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity (transfer recipient) is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity (transfer recipient) makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs. These disclosures assist users to make informed judgments about the entity's (transfer recipient's) future revenue and net asset position.

~~110.~~116. In the public sector, an entity (transfer recipient) may impose a cost on another party by way of constitutional authority, legally sanctioned process, or other mechanism, where the face value of the revenue without a performance obligation transaction may not always be collectible. This is common in transactions to collect taxes or fines, where the entity is aware they may not collect face value. An entity shall disclose the following:

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

(b) The amount of revenue from these transactions that was recognized after application of paragraphs 60–61 of this [draft] Standard; and

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 60.

~~111.~~117. Paragraph 109(d) requires entities (transfer recipients) to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the ~~transferor~~transfer provider, which exposes the entity (transfer recipient) to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgments about the entity's (transfer recipient's) future revenue and net asset position.

~~112.~~118. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities (transfer recipients) may elect to recognize these services in-kind and measure them at their fair value. Paragraph 110 strongly encourages an entity (transfer recipient) to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's (transfer recipient's) objectives during the reporting period, and (b) the entity's (transfer recipient's) dependence on such services for the achievement of its objectives in the future.

~~Transitional Provisions~~

~~[Deleted]~~

Effective Date

Effective Date

~~113.~~119. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after ~~June 30, 2008~~[DD/MM/YYYY]. Earlier application is encouraged. If an entity applies this Standard for periods beginning before [DD/MM/YYYY]~~June 30, 2008~~, it shall disclose that fact and apply [draft] IPSAS [X] ED 70 and [draft] IPSAS [X] ED 72 at the same time~~it shall disclose that fact~~.**

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

Transition

~~114.~~121. For the purposes of the transition requirements in paragraphs 122–127:

(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 fulfilled all the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

~~115.~~122. 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 124; or

(b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 126–127.

~~116.~~123. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 122(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

~~117.~~124. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 122(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 all reporting periods presented before the date of initial application, an entity need not disclose the amount of the fair value allocated to the remaining present obligations and an explanation of when the entity expects to recognize that amount as revenue

~~118.~~125. For any of the practical expedients in paragraph 124 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.

~~119.~~126. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 122(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).

~~120.~~127. 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 122(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 23; and

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

Withdrawal of Other Standards

~~121.~~128. This [draft] Standard supersedes IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).* IPSAS 23 remains applicable until [draft] IPSAS [X] (ED 71) is applied or becomes effective, whichever is earlier.

~~122. IPSAS 28 amended paragraph 37. An entity shall apply the amendment for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 28 for a period beginning before January 1, 2013, the amendment shall also be applied for that earlier period.~~

~~123. IPSAS 29 amended paragraphs 5, 10, 87, and 106, and inserted paragraphs 105A and 105B. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 29 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.~~

~~124. Paragraphs 116, 117, 118, 119, 120, 121, 122, 123 and 125 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.~~

~~125. Paragraphs 3 and 4 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.~~

~~Paragraphs 1, 2 and 6 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.~~

~~126. Paragraphs 43, 105A was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2022 it shall disclose that fact and apply IPSAS 41 at the same time.~~

~~127. Paragraph 2 was amended by IPSAS 42, Social Benefits, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.~~

~~128. When an entity adopts the accrual basis IPSASs 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 Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.~~

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 71)

AG1. This Application Guidance is organized into the following categories:

(a) Objective (paragraph AG2);

(b) Scope (paragraphs AG3−AG9);

(c) Definitions (paragraphs AG10–AG27);

(d) Revenue without Performance Obligations subject to Appropriations (paragraphs AG28–AG32);

(e) Determining the Transaction Price (paragraphs AG33-AG34)

(f) Transfers (paragraphs AG35-AG58)

(g) Measurement of Transferred Assets (paragraph AG42);

(h) Debt Forgiveness and Assumptions of Liabilities (paragraph AG43-AG46);

(i) Capital Transfers (paragraphs AG47-AG48);

(j) Fines (paragraphs AG49-AG50);

(k) Bequests (paragraphs AG51-AG53); and

(l) Gifts, Donations, including Goods In-kind (paragraphs AG54-AG58).

Objective (see paragraph 1)

AG2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize revenue from transactions without performance obligations as follows:

(a) For transfers where the entity is required, by a binding arrangement, (see paragraphs AG14 -AG19), to use the resources provided to either complete an enforceable activity or to use on eligible expenditures, revenue is recognized either when an enforceable activity is completed or as eligible expenditure is incurred.

(b) For transfers that do not arise from a binding arrangement, revenue is recognized when the entity controls the resources transferred.

Scope (see paragraphs 2–8)

AG3. The scope of this [draft] Standard is limited to revenue transactions without performance obligations.

AG4. Transactions without performance obligations may or may not arise from a binding arrangement, this [draft] Standard applies to both types of transactions. Transactions without performance obligations that arise from a binding arrangement have a present obligation to either complete an enforceable activity or a requirement to incur eligible expenditure.

AG5. A performance obligation is defined at paragraph 7 of draft IPSAS]X] (ED 70), as a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct

goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary Transactions that have performance

AG6. The key distinction between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation is this [draft] Standard is that a performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement.

AG7. In practice, an entity (transfer recipient) will consider whether it maintains control of the resources provided by the transfer provider. If the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are transferred to the transfer provider, or to a third-party beneficiary, the transaction is accounted based on the requirements of [draft] IPSAS [X] (ED 70). Where there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary or the entity (transfer recipient) directs the use of the economic benefit of the good or service then the requirements of this [draft] Standard apply.

AG8. For example, where an entity (transfer recipient) receives cash or another asset from an international financial institution (transfer provider) to provide training services on the entity's own accounting practices, the arrangement is accounted for within the scope of this [draft] Standard when the entity (transfer recipient) is able to determine who will receive the training services. Often arrangements of this nature that will be within the scope of the [draft] Standard will be where the training services are provided internally to the entity (transfer recipient). This is because the entity (transfer recipient) receives the benefit of the good or service. If the international financial institution requires the training services be delivered to the staff of the international financial institution, the arrangement would be within the scope of [draft] IPSAS [X] ED 70 as the benefit from the good or service is transferred to the transfer provider.

AG9. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding, therefore this [draft] Standard addresses accounting for:

(a) Taxes;

(b) Capital transfers; and

(c) Other transfers including, debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received.

Definitions (see paragraphs 9–10)

Capital Transfer

AG10. This [draft] Standard defines a capital transfer as a transaction, that arises from a binding arrangement, where a transfer provider provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-current non-financial asset that will be controlled by the transfer recipient. A capital transfer does not impose a performance obligation (as defined by [draft] IPSAS [X] (ED 70) on the transfer recipient because there is no requirement to transfer the procured non-financial asset to either the transfer provider or a third-party beneficiary and therefore it does not meet the requirements of a performance obligation.

Eligible Expenditure

AG11. This [draft] Standard defines eligible expenditure as an outflow of resources incurred in accordance with the obligations in a binding arrangement. A transfer, that arises from a binding arrangement may be provided with the requirement that the transfer recipient use the resources in furthering the entity's objectives, but the requirement does not meet the requirements to be classified as an enforceable activity or a performance obligation as defined in [draft] IPSAS [X] (ED 70). For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and therefore the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditure. Revenue would be recognized as these eligible expenditures are incurred.

AG12. The transfer provider needs to be able to confirm that all expenditure incurred was eligible and therefore the transfer recipient needs to keep appropriate documentation to show that the expenditure was incurred by the transfer recipient and for the purpose intended.

Enforceable Activity

AG13. This [draft] Standard defines an enforceable activity as an action specified in a binding arrangement that must be completed by a transfer recipient. An enforceable activity differs from a performance obligation because there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary. For example, a transfer provider provides funding to a government science agency (transfer recipient) to conduct research and development into a plant-based meat replacement. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the transfer provider requires the transfer recipient to report back at each stage. Each of these stages constitutes an enforceable activity and revenue would be recognized as they are completed and for the amount incurred in completing that enforceable action.

Binding Arrangement

AG14. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. This [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers enforceable rights and obligations on all the parties to the arrangement. In the public sector, an arrangement is enforceable when the entity (the transfer recipient) and the transfer provider are able to enforce the rights and obligations through legal or equivalent means.

AG15. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as equivalent means).

AG16. For an arrangement to be enforceable through 'equivalent means', the presence of a mechanism outside the legal systems that establishes the right of the transfer provider to oblige the entity (transfer recipient) to complete the agreed enforceable activity, incur eligible expenditure or be subject to remedies for non-performance must exist. Similarly, the presence of a mechanism outside the legal systems that establishes the right of the entity (transfer recipient) to oblige the transfer provider to pay the agreed consideration is required.

AG17. An entity considers the substance rather than the legal form of an arrangement in determining whether it is enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both the entity (the transfer recipient) and the transfer provider; and

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

AG18. 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.

AG19. To be considered a binding arrangement for the purposes this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG20 - AG27.

Enforceability

AG20. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the entity receiving the consideration (the transfer recipient).

AG21. 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.

AG22. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to complete an enforceable activity or incur eligible expenditure.

AG23. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of legislative authority were detailed in the binding arrangement as a means of enforcing the satisfaction of enforceable activities or to use funding on eligible expenses by an entity, this may result in a legislative enforcement mechanism.

AG24. Other forms of enforceability by ‘equivalent means’ may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to complete enforceable activities may be enforceable. Similarly, a directive given by a minister or government department to an entity (a

transfer provider) controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

AG25. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other entity (the transfer provider). In general, the transfer provider's ability to reduce or withhold future funding to which the entity (transfer recipient) is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the transfer provider to provide such funding. However, if the entity (transfer recipient) was presently entitled to funding in the future (through another binding arrangement) then this could be considered a valid enforcement mechanism.

AG26. When determining if a reduction of future funding would be an enforcement mechanism, the entity (the transfer recipient) shall apply judgment based on the facts and circumstances.

AG27. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient under which both parties have rights and obligations.

Revenue without Performance Obligations Subject to Appropriations (see paragraph 36)

AG28. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transaction without performance obligations may specify that any future transfer is subject to the appropriation being approved.

AG29. In accordance with paragraphs 36, an entity (the transfer recipient) considers substance over form in determining the effect of such a limitation. In some jurisdictions, a transfer provider may be prohibited from transferring the promised resources unless and until the legislature or similar authority has authorized the appropriation. In such circumstance, an entity (the transfer recipient) considers that the limitation (that the future transfer is subject to the appropriation being approved) has substance. In other jurisdictions, a transfer provider may be not be prohibited from transferring the promised resources and may have a legal obligation to transfer the resources as a result of the binding arrangement. In such circumstances, the term of the binding arrangement that states that the future transfer is subject to the appropriation being approved has the form of a limitation, but not the substance.

AG30. In some jurisdictions, the appropriation process may have more than one stage. A limitation has substance if, at any point in the process, the transfer provider is prohibited from transferring the promised resources until approval is given. Authorization of the appropriation occurs, in substance, at the point at which the transfer provider is no longer prohibited from transferring the promised resources.

AG31. Where a future transfer is subject, in substance to the appropriation being approved, an entity (the transfer recipient) shall not recognize an asset for the transfer without performance obligations prior

to the appropriation being approved. Until the appropriation is approved, the binding arrangement is not enforceable, as until this point, there is no legal obligation. A constructive obligation, as defined in IPSAS 19, does not arise as

(a) The transfer recipient will not have a valid expectation that a transfer will be made ahead of the appropriation being made; and

(b) The transfer recipient or the legislative body can avoid the transfer by not approving the appropriation.

AG32. Transactions without performance obligations may be made as a series of transfers. Where these are subject, in substance, to annual appropriations, approval of an appropriation will give rise to an asset for the current year's transfer only, subject to the recognition criteria having been met. No asset for transfers beyond the current year arises because these will be subject to further appropriations.

Determining the Transaction Price (paragraphs 52-62)

AG33. An entity (transfer recipient) shall apply the requirements in paragraphs 52-62 (including the requirements for constraining measurement in paragraphs 60-61) to determine the amount of revenue to which the entity expects to be entitled. For any revenue for which an entity does not believe it is highly probable that a significant reversal in the amount, the entity shall not recognize revenue. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in order to determine whether the threshold for measurement has been achieved.

AG34. Since estimating revenue is only required once the entity can determine the transaction amount and how much it is likely to collect. This reduces volatility in revenue, as it is unnecessary to reverse estimates in future periods, which is consistent with ED 70 and better enables users to understand the entity's revenue position.

Transfers

AG35. **Subject to paragraph 97, an entity (transfer recipient) shall recognize an asset in respect of revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**

AG36. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without requiring a transfer of distinct goods or services to the transfer provider or a third-party beneficiary in return, ~~providing approximately equal value in exchange,~~ and are not taxes as defined in this [draft] Standard.

AG37. Transfers satisfy the definition of an asset when the entity (transfer recipient) controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity (transfer recipient) decreases the carrying amount of the liability.

AG38. An entity (transfer recipient) obtains control of transferred resources either when the resources have been transferred to the entity (transfer recipient), or the entity (transfer recipient) has an enforceable claim against the transferor provider. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity (transfer recipient) promises to transfer resources, but fails to do so. ~~Consequently~~Consequently, only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the entity (transfer recipient) cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

AG39. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

AG40. Transfers satisfy the definition of ~~non-exchange~~ a transactions without performance obligations because the ~~transferor~~ transfer provider provides resources to the ~~recipient~~ entity (transfer recipient) without requiring the ~~recipient~~ entity (transfer recipient) to transfer distinct goods or services to the transfer provider or a third-party beneficiary~~providing approximately equal value directly in exchange~~. If an agreement requires~~stipulates~~ that the ~~recipient~~ entity (transfer recipient)) is to transfer distinct goods or services to the transfer provider or a third-party beneficiary~~is to provide approximately equal value in exchange~~, the agreement does~~is~~ not give rise to a transaction without a performance obligation~~a transfer agreement~~, but a binding arrangement with performance obligations ~~contract for an exchange transaction~~ that should be accounted for under [draft] IPSAS [X] (ED 70)~~IPSAS 9~~.

AG41. An entity (transfer recipient) analyzes all requirements~~stipulations~~ contained in an ~~transfer~~ agreement~~s~~ to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets (see paragraph 52)

AG42. As required by paragraph 52~~42~~, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through transactions without performance obligations ~~non-exchange transactions~~ are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 52~~42~~ and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

~~AG35.~~AG43. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

~~AG36.~~AG44. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

~~AG37.~~AG45. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 6–7.

AG46. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Capital Transfers (see paragraphs 92-96)

~~AG38.~~AG47. Capital transfers may be given with the requirement that the transfer recipient uses the non-financial asset procured for a particular purpose. For example, a capital transfer may be provided for a local government entity to build an early learning center that must be used as such for 10 years. Therefore, this may indicate that there are two obligations in the binding arrangement, firstly to build the early learning center and then secondly to use that as an early learning center for 10 years.

~~AG39.~~AG48. Applying resources from a capital transfer to a requirement to use the procured non-financial asset may result in revenue recognition being deferred for long period or even never fully recognized particularly if the non-financial asset is required to be used in perpetuity. Therefore this [draft] Standard, requires that capital transfers be accounted for only for the procurement of the non-financial asset and not for any additional obligations regarding the use of the asset.

Fines

AG49. Fines are economic benefits or service potential received or receivable by a public sector entity (transfer recipient), from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG50. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 33~~31~~. As noted in paragraph 11~~12~~, where an entity (transfer recipient) collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity (transfer recipient).

~~33~~11Bequests

AG51. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity (transfer recipient) has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

AG52. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity (transfer recipient), and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity (transfer recipient) receiving any assets. The entity (transfer recipient) will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity (transfer recipient).

AG53. The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG56~~97~~. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity (transfer recipient), and this amount may be available to the entity (transfer recipient). Bequests are measured at the fair value of the resources received or receivable.

~~AG56~~Gifts and Donations, including Goods In-kind

AG54. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements~~stipulations~~. The transfer provider ~~transferor~~ may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 97-103~~98–103~~ below.

AG55. Goods in-kind are tangible assets transferred to an entity (transfer recipient) in a transaction without performance obligations~~non-exchange transaction~~, ~~without charge,~~ but may be subject to enforceable activities~~stipulations~~. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG56. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity (transfer recipient) and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity (transfer recipient).

AG57. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received with no binding arrangement~~without conditions attached~~, revenue is recognized immediately. If enforceable activities~~conditions~~ are attached, a liability is recognized, which is reduced and revenue recognized as the enforceable activities~~conditions~~ are satisfied.

AG58. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88, 94(b) and 135 are amended and paragraph 153O is added. New text is underlined, and deleted text is struck through.

…

Structure and Content

…

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) Property, plant, and equipment;

(b) Investment property;

(c) Intangible assets;

(d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));

(e) Investments accounted for using the equity method;

(f) Inventories;

(g) Recoverable from ~~non-exchange~~ revenue transactions without performance obligations (taxes and transfers):

…

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

94**.** The detail provided in subclassifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example.

(a) Items of property, plant, and equipment are disaggregated into classes in accordance with IPSAS 17;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions without performance obligations, receivables from related parties, prepayment, and other amounts;

…

Disclosure of Accounting Policies

135. Each entity considers the nature of its operations and the policies that the user of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of ~~non-exchange~~ revenue without performance obligations. When an entity has significant

foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

…

Effective Date

…

153O. Paragraphs 88, 94(b) and 135 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month], [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 12, Inventories

Paragraphs 16 and 31 are amended and paragraph 51F is added. New text is underlined, and deleted text is struck through.

…

Measurement of Inventories

…

16. **Where inventories are acquired through a ~~non-exchange~~ revenue transaction without performance obligations, their cost shall be measured at their fair value as at the date of acquisition.**

…

Techniques for the Measurement of Cost

…

31. Inventories may be transferred to the entity by means of a ~~non-exchange~~ revenue transaction without performance obligations. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired.

…

Effective Date

…

51F. Paragraphs 16 and 31 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance*

Obligations issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 27 are 32 amended and paragraph 101H is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an investment property is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured at its fair value as at the date of acquisition.**

…

32. An investment property may be acquired through a ~~non-exchange~~ revenue transaction without performance obligations. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

…

Effective Date

…

101H. Paragraphs 27 and 32 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] ED 71 at the same time.

…

Amendments to IPSAS 17, Property, Plant, and Equipment

Paragraphs 27 and 28 are amended and paragraph 107P is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an asset is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured as its fair value as at the date of acquisition.**

28. An item of property, plant and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads, and paths in the development. An asset may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

…

Effective Date

…

107P. Paragraphs 27 and 28 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

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

Paragraph 107 is amended and paragraph 111J is added. New text is underlined, and deleted text is struck through.

…

Disclosure

…

107. The disclosure requirement in paragraph 105 encompass contingent assets from both ~~exchange and non-exchange~~ transactions with performance obligations and those without performance obligations. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are to be

dealt with as a part of a separate project on non-exchange revenue.

…

Effective Date

…

111J. Paragraph 107 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 27, *Agriculture*

Paragraph 17, 48(c) are amended and paragraph 56G is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

17. **Where an entity acquires a biological asset through a ~~non-exchange~~ revenue transaction without performance obligations, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**

…

Disclosure

…

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

    (a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**

    (b) **Increases due to purchases;**

    (c) **Increases due to assets acquired through a ~~non-exchange~~ revenue transaction without performance obligations;**

    (d) …

…

Effective Date

…

56G. Paragraph 17 and 48(c) were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 28, Financial Instruments: Presentation

Paragraphs AG21 and AG22 are amended and paragraph 60F is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

126L. Paragraphs AG21 and AG22 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Scope

…

AG21. In the public sector, it is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are accounted for in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71, *Revenue without Performance Obligations)*. If ~~non-exchange~~ revenue transactions without performance obligations are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG70-AG71 of this Standard. An entity uses the guidance in this Standard and ~~IPSAS 23~~ draft IPSAS [X] (ED 71) in assessing whether a ~~non-exchange~~ revenue transaction without performance obligations gives rise to a

liability or an equity instrument (contribution from owners).

AG22 An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual ~~non-exchange~~ revenue transaction without performance obligations is in substance a liability or an equity instrument.

…

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, 42N, are amended and paragraph 52G is added. New text is underlined and deleted text is struck through.

…

Scope

…

5A The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

…

Nature and Extent of Risks Arising from Financial Instruments

…

Quantitative Disclosures

…

Credit Risk

Scope and Objectives

42A. An entity shall apply the disclosure requirements in paragraphs 42F–42N to financial instruments to which the impairment requirements in IPSAS 41 are applied. However:

(a) For receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of IPSAS 41, if those financial assets are modified while more than 30 days past due; and

(b) Paragraph 42K(b) does not apply to lease receivables.

…

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

42H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) The loss allowance measured at an amount equal to 12-month expected credit losses;

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from exchange transactions that are within the scope of IPSAS 9 or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71~~)~~ or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

…

Credit Risk Exposure

42M. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) For which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from exchange transactions that are within the scope of IPSAS 9 or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) That are purchased or originated credit-impaired financial assets.

42N. For receivables that result from exchange transactions that are within the scope of IPSAS 9 or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables to which an entity applies paragraph 87 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

…

Effective Date

…

52G. Paragraphs 5A, 42A, 42H, 42M and 42N were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 26, 26A, 42, 43, 76, 111, 121(c) and one heading are amended and paragraph 132K is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

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

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

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

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

26A. Paragraphs 32-39 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 39A-41 deal with their application to intangible assets acquired in a public sector combination. Paragraphs 42-43 deal with the initial measurement of intangible assets acquired through ~~non-exchange~~ revenue transactions without performance obligations, paragraphs 44-45 with exchanges of intangible assets, and paragraphs 46-48 with the treatment of internally generated goodwill. Paragraphs 49-65 deal with the initial recognition and measurement of internally generated intangible assets.

…

Recognition and Measurement

…

Intangible Assets Acquired through ~~Non-Exchange~~ Revenue Transactions without Performance

Obligations

42. In some cases, an intangible asset may be acquired through a ~~non-exchange~~ revenue transaction without performance obligations. This may happen when another public sector entity transfers to an entity in a ~~non-exchange~~ revenue transaction without performance obligations, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources. A private citizen, for example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a ~~non-exchange~~ revenue transaction without performance obligations.

43. Under the circumstances the cost of the item is its fair value at the date it is acquired. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a ~~non-exchange~~ revenue transaction without performance obligations, at its fair value consistent with the requirements of paragraph 74, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 74, and the supporting commentary in paragraphs 75-86 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

…

Subsequent Measurement

…

76. The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received through a ~~non-exchange~~ revenue transaction without performance obligations (see paragraphs 42-43).

…

Retirements and Disposals

111. **An intangible asset shall be derecognized:**

(a) **On disposal (including disposal through a ~~non-exchange~~ revenue transaction without performance obligations); or**

(b) **When no future economic benefits or service potential are expected from its use or disposal.**

…

Disclosure

General

…

121. **An entity shall also disclose:**

(a) **For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In**

giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

(b) **A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.**

(c) **For intangible assets acquired through a ~~non-exchange~~ revenue transaction without performance obligations and initially recognized at fair value (see paragraphs 42–43):**

(i) **The fair value initially recognized for these assets;**

(ii) **Their carrying amount; and**

(iii) **Whether they are measured after recognition under the cost model or the revaluation model.**

(d) The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.

(e) The amount of contractual commitments for the acquisition of intangible assets.

…

Effective Date

…

132K. Paragraphs 26, 26A, 42, 43, 76, 111 and 121(c) were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraph AG64 is amended and paragraph XX is added. New text is underlined and deleted text is struck through.

Application Guidance

…

Other Revenues (see paragraph 30)

…

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71, *Revenue without Performance Obligations*).

…

Effective Date

…

36E. Paragraph AG64 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

….

Amendments to IPSAS 33, First-time Adoption of Accrual Basis IPSAS

Paragraphs 32, 41, 42, 43, 71 and two headings and paragraph 154D was added. Amended text is underlined and deleted text is struck through.

…

Fair Presentation and Compliance with IPSASs

…

32. For example, a first-time adopter adopts the three year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of ~~non-exchange~~ revenue without performance obligations. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSASs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSASs at the date of adoption of accrual basis IPSASs or during the period of transition.

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

…

41. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of IPSAS 9, *Revenue from Exchange Transactions*, or other receivables settled in cash or another financial asset in terms of ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71, *Revenue without Performance Obligations*).**

…

Recognition and/or Measurement of ~~Non-Exchange~~ Revenue without Performance Obligations

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange~~ revenue without performance obligations for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of revenue from ~~non-exchange~~ transactions without performance obligations on a class-by-class basis.**

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue from ~~non-exchange~~ transactions without performance obligations in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue from ~~non-exchange~~ transactions without performance obligations that do not comply with the provisions of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) incrementally to different classes of revenue from ~~non-exchange~~ transactions without performance obligations. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of transfers in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for reorganizing and measuring income tax revenue.

…

Used Deemed Cost to Measure Assets Acquired Through a ~~Non-Exchange~~ Revenue Transaction without Performance Obligations

71. **A first-time adopter may elect to measure an asset acquired through a ~~non-exchange~~ revenue transaction without performance obligations at its fair value when reliable cost information about the asset is not available, and use that fair value as its deemed cost.**

…

Effective Date

…

154D Paragraphs 32, 41, 42, 43, 71 were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

….

Amendments to IPSAS 35, Consolidated Financial Statements

Paragraph AG13 is amended and paragraph 79D was added. New text is underlined and deleted text is struck through.

Application Guidance

…

Assessing Control

…

Power

…

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through ~~non-exchange~~ transactions without performance obligations;

(d) …

…

Effective Date

…

79D Paragraph AG13 was amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month]

[Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraph 5 is amended and paragraph 51D is added. New text is underlined and deleted text is struck through.

…

Scope

…

5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are ~~non-exchange~~ revenue without performance obligations in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

…

Effective Date

…

51D Paragraph 5 was amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 40, Public Sector Combinations

Paragraph 34, 79, AG58, AG86, IE176, IE250 and IE264 and paragraph 126A. New text is underlined and

deleted text is struck through.

…

Accounting for Amalgamations

…

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

…

Exceptions to the Recognition or Measurement Principles

…

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

The Acquisition Method of Accounting

…

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

…

Exceptions to Both the Recognition and Measurement Principals Income Taxes (Where Included in the Terms of the Acquisition)

…

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Effective Date

…

126A Paragraphs 34, 79, AG58, and AG86 were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods

beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Accounting for Amalgamation

…

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

…

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Accounting for Acquisition

…

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

…

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Illustrative Examples

…

Accounting for Amalgamation

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

…

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed

number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.

…

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

…

IE176. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

…

IE250. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 2(j), 3, 37, 87(a), AG6, AG33, AG43, AG44, AG114, AG117, AG122, AG124, AG125, AG129, two headings were amended and paragraph 156A was added, New text is underlined and deleted text is struck through.

…

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments except:**

   (a) **Those interests in controlled entities, associates and joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, or IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate or joint venture in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a controlled entity, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in IPSAS 28, *Financial Instruments: Presentation*.**

(c) **Rights and obligations under leases to which IPSAS 13, *Leases* applies. However:**

(i) **Finance lease receivables (i.e., net investments in finance leases) and operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard;**

(ii) **Lease liabilities recognized by a lessee are subject to the derecognition requirements in paragraph 35 of this Standard; and**

(iii) **Derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.**

(d) **Employers' rights and obligations under employee benefit plans, to which IPSAS 39, *Employee Benefits* applies.**

(e) **Financial instruments issued by the entity that meet the definition of an equity instrument in IPSAS 28 (including options and warrants) or that are required to be classified as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. However, the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a).**

(f) **Rights and obligations arising under:**

(i) **An insurance contract, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in paragraph 9; or**

(ii) **A contract that is within the scope of relevant international or national accounting standard dealing with insurance contracts because it contains a discretionary participation feature.**

This Standard applies to a derivative that is embedded in a contract if the derivative is not itself an insurance contract (see paragraphs 47–59 and Appendix A paragraphs AG99–AG110 of this Standard). An entity applies this Standard to financial guarantee contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring them. Notwithstanding (i) above, an entity may apply this Standard to other insurance contracts which involve the transfer of financial risk.

(g) **Any forward contract between an acquirer and a selling shareholder to buy or sell an acquired operation that will result in a public sector combination to which IPSAS 40 applies at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.**

(h) **Loan commitments other than those loan commitments described in paragraph 4. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard.**

(i) **Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with**

share based payment applies, except for contracts within the scope of paragraphs 5–8 of this Standard to which this Standard applies.

(j) **Rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognizes as a provision in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, or for which, in an earlier period, it recognized a provision in accordance with IPSAS 19.**

(j) **The initial recognition and initial measurement of rights and obligations arising from non-exchange revenue transactions to which ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations* applies; except as described in AG6.**

(k) …

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

…

Recognition and Derecognition

…

Derecognition of Financial Liabilities

…

37. **The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a ~~non-exchange~~ revenue transaction without performance obligations, an entity applies ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Measurement

…

Impairment

…

Simplified Approach for Receivables

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

(a) **Receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Effective Date

…

156A Paragraphs 2(j), 3, 37, 87(a), AG6, AG33, AG43, AG44, AG114, AG117, AG122, AG124, AG125, AG129 were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

Scope

…

AG6. Rights and obligations (assets and liabilities) may arise from ~~non-exchange~~ revenue transactions without performance obligations, for example, an entity may receive cash from a multi-lateral agency to perform certain enforceable activities. Where the performance of those enforceable activities is subject to conditions, an asset and a liability is recognized simultaneously. Where the asset is a financial asset, it is recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and initially measured in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) and this Standard. A liability that is initially recognized as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from ~~non-exchange~~ revenue transactions without performance obligations are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.

…

Recognition and Derecognition

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with the relevant revenue standard (see IPSAS 9 and ~~IPSAS 23~~[draft] IPSAS [X] (ED 71)). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial

liabilities shall be recognized when the entity becomes party to the contractual 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.

…

Derecognition of Financial Liabilities

…

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs ~~84 to 87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a ~~non-exchange~~ revenue transaction without performance obligations it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Measurement

~~Non-Exchange~~ Revenue Transactions without Performance Obligations

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions without performance obligations is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). Assets resulting from ~~non-exchange~~ revenue transactions without performance obligations can arise out of both contractual and non-contractual arrangements (see IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

(a) Initially recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71);

(b) Initially measured:

(i) At ~~fair value~~ the transaction price using the principles in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71); and

(ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit

…

Initial Measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

…

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the

transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) In all other cases, at the measurement required by paragraph 57, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The requirements of this paragraph do not apply to concessionary loans or equity instruments arising from ~~non-exchange~~ revenue transactions without performance obligations as outlined in paragraphs AG118 to AG130.

Concessionary Loans

…

AG122. Whether a loan is concessionary or originated credit-impaired depends on its substance. An intention to incorporate a ~~non-exchange~~ revenue without performance obligations component into the transaction, such as a transfer of resources, indicates the loan is concessionary. The ~~non-exchange~~ revenue without performance obligations component is incorporated into the transaction by granting the loan at below market terms. By contrast, originated credit-impaired loans are loans where one or more events, that have a detrimental impact on the estimated future cash flows of the financial asset, have occurred.

…

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~ 106-107 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155 Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).

AG125. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

(b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners,

for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

Illustrative Examples are provided in paragraph IG54 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) as well as paragraphs IE153 to IE161 accompanying this Standard.

…

Equity Instruments Arising from ~~Non-Exchange~~ Revenue Transactions without Performance Obligations

…

AG129. At initial recognition of such transactions, an entity shall analyze the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a ~~non-exchange~~ revenue transaction without performance obligations. To the extent that the transaction, or component of the transaction, is a ~~non-exchange~~ revenue transaction without performance obligations, any assets or revenues arising from the transaction are accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of [draft] IPSAS X (ED 71), Revenue without Performance Obligations.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*). In forming their views, IPSASB members considered the views of respondents to Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*.

BC2. Governments and many other public sector entities derive the majority of their revenue from transactions without performance obligations. These transactions include, principally, taxation, but also transfers. This [draft] IPSAS addresses these types of transactions ~~from the perspective of a public sector entity~~.

BC3. This Standard establishes broad principles for the recognition of revenue from transactions without performance obligations, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. In developing this [draft] Standard, the IPSASB considered whether to adopt an approach that focused on the development of requirements for accounting for revenue arising from a range of specific types of transactions without performance obligations. However, the IPSASB noted that such an approach brings with it consequent risks that the resultant [draft] Standard would not provide comprehensive guidance for all revenue from transactions without performance obligations. The IPSASB is of the view that the approach adopted in this Standard ensures that appropriate broad principles for the recognition of revenue from transactions without performance obligations are established and can be applied to all revenue from transactions without performance obligations.

Background

~~BC2.~~BC4. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts* respectively which were both issued by the International Accounting Standards Board (IASB).

~~BC3.~~BC5. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:

(a) Difficulty in making the distinction between exchange and non-exchange transactions;

(b) Difficulty in making the distinction between a condition and a restriction;

(c) Lack of guidance on multi-year funding arrangements; and

(d) Lack of guidance on accounting on for capital grants.

~~BC4.~~BC6. In May 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which superseded IAS 11 and IAS 18. In discussing the possibility of superseding IPSAS 9 and IPSAS 11 with an IPSAS aligned with IFRS 15 the IPSASB considered that this may provide an opportunity to address some of the application issues with IPSAS 23. Consequently, the IPSASB issued, Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* in August 2017 which outlined its proposals for developing and IPSAS to align with IFRS 15 and also updating IPSAS 23.

~~BC5.~~BC7. Respondents to the CP agreed with the proposals which led to the development of two revenue standards to replace the existing three: an IPSAS aligned with IFRS 15, updated for public sector specific issues, using a performance obligation approach, and an updated IPSAS 23 applicable to the majority of revenue transactions common to the public sector. Therefore, [draft] IPSAS [X] (ED 70) addresses revenue transactions with performance obligations and this [draft] Standard addresses revenue transactions without performance obligations (the updated IPSAS 23).

~~BC6.~~BC8. This Basis explains the IPSASB decisions regarding the changes made to IPSAS 23 in the development of this [draft] Standard. The IPSASB decided that all necessary authoritative text from IPSAS 23 should be incorporated into this [draft] Standard and therefore the Basis for Conclusion paragraphs from IPSAS 23 that relate to remaining IPSAS 23 text have been retained.

Scope

~~BC7.~~BC9. The IPSASB decided to change the approach for classification or revenue transaction from an exchange/non-exchange approach to that of whether the transaction had a performance obligation (as defined in [draft] IPSAS [X] (ED 70) or not. As such revenue transactions with performance obligations are accounted for under [draft] IPSAS [X] (ED 70) and revenue transactions without performance obligations are accounted for in this [draft] Standard. This [draft] Standard there provides the accounting for:

(a) Revenue transactions from binding arrangements without performance obligations but with present obligations (see paragraphs BC12-BC14); and

(b) Revenue transactions which were not from a binding arrangement, including but not limited to:

i. Taxes;

ii. Bequests;

iii. Fines; and

iv. Donations

Unenforceable transactions

~~BC8.~~BC10. The IPSASB discussed how to account for transfers that did not arise from a binding arrangement but had an implied requirement for how those resources were to be used.

~~BC9.~~BC11. The IPSASB decided that because the transaction was unenforceable, as there was no binding arrangement, there was no present obligation for the transfer recipient to use the resources as the transfer provider intended. Therefore, revenue should be recognized by the transfer recipient when the resources were controlled by the transfer recipient.

Enforceable transactions

~~BC10.~~BC12. The IPSASB considered whether it is possible to have an enforceable transaction with a present obligation, that was not a performance obligation, as defined in [draft] IPSAS [X] (ED 70). They concluded that a present obligation that is not a performance obligation can exist. The present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.

~~BC11.~~BC13. The IPSASB decided that the present obligations in enforceable transactions would either be an:

(a) Enforceable activity; or

(b) A requirement to incur eligible expenditure.

The transfer recipient would recognize an asset and a liability when they had control of the transfer and the revenue would be recognized (and the liability decreased) when either an enforceable activity was completed, or as eligible expenditure was incurred.

~~BC12.~~BC14. The IPSASB noted that an enforceable activity or the requirement to incur eligible expenditure differs from a performance obligation in [draft] IPSAS [X] (ED 70) because there is no requirement for the transfer recipient to transfer a good or service to either the transfer provider or a third-party beneficiary.

Appropriations

~~BC13.~~BC15. The IPSASB noted that, in some jurisdictions, a binding arrangement for a revenue transaction without performance obligations might be made subject to approval of the related appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. In some jurisdictions, a transfer provider would be prohibited from transferring the promised resources until the appropriation was approved; in other jurisdictions, no such prohibition would exist. The IPSASB agreed that the transfer recipient should consider substance over form, and where the limitation has substance, the transfer recipient should not recognize an asset prior to the appropriation being approved. The IPSASB also agreed to include guidance on determining whether the limitation that future transfers were subject to the appropriation being approved has substance.

Determining the Transaction Price

~~BC14.~~BC16. In responding to constituent concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

~~BC15.~~BC17. Constituents noted that there are a number of revenue transactions within the scope of draft IPSAS [X] ED (71) that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death

(the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.

~~BC16.~~BC18. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probably a significant reversal will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain which addressed concerns raised by constituents.

Capital Transfers

~~BC17.~~BC19. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. Therefore, this [draft] Standard includes specific guidance on accounting for capital transfers. However, the IPSASB noted that the accounting for capital transfers would the same as for any other transfer in that if the transfer of resources arose outside of a binding arrangement revenue would be recognized by the transfer recipient when it controlled those resources, and that revenue from capital transfers from binding arrangements would be recognized either as enforceable activities were completed, or as eligible expenditure was incurred.

~~BC18.~~BC20. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting 'grants related to assets' which is defined as: "Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held".

~~BC19.~~BC21. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated. Therefore, under IAS 20, a capital transfer would never be classified as revenue, even though it affects the profit and loss statement as other income or reduced depreciation.

~~BC20.~~BC22. The IPSASB agreed that this approach did not provide useful or representationally faithful information for uses and therefore decided to develop an accounting approach for capital transfers which recognized that transfer in revenue as the non-financial asset (capital) asset is either procured or constructed.

Monetary and Non-monetary Assets

~~BC21.~~BC23. ~~BC9.~~ This [draft] Standard does not establish different requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify different financial reporting treatments.

Transactions with ~~Exchange and Non-Exchange~~both Performance Obligation and No Performance

Obligation Components (Hybrid transactions)

BC22.BC24. BC14. This [draft] Standard notes that a single transaction can have two components, an exchange component and a non-exchange componentone that includes a performance obligation and one that does not have a performance obligation. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts enhances the transparency of financial statements and satisfies the qualitative characteristic of reporting the substance of transactions. However, if the components cannot be separated the whole transactions should be accounted for under [draft] IPSAS [X] (ED 70).

Contributions from Owners

BC23.BC25. BC15. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 0). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Measurement of Assets

BC24.BC26. BC16. This [draft] Standard requires that assets acquired through non-exchange transactions without performance obligations be initially measured at either transaction price or their fair value (depending on whether the asset is cash or non-cash) as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction with performance obligations, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction without performance obligations the consideration provided for the acquisition of an asset is not approximatelymay not be equal to the fair value of the asset acquired. Fair value or transaction price most faithfully represents the actual value the public sector entity (transfer recipient) accrues as a result of the transaction. Initial measurement of non-assets acquired through non-exchange transactions without performance obligations at their fair value is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSASs with the requirements of this Standard.

Entity Bank Accounts

BC25.BC27. BC17. This [draft] Standard assumes the requirement that all money deposited in a bank account of an entity (transfer recipient) satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity (transfer recipient). The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The [draft] Standard also requires the recognition of a liability in respect of any amount the reporting entity (transfer recipient) has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Liabilities

~~BC26.~~BC28. ~~BC18.~~ This [draft] Standard requires that where an entity (transfer recipient) recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

~~BC27.~~BC29. ~~BC19.~~ This [draft] Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The [draft] Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts

~~BC28.~~BC30. ~~BC20.~~ This [draft] Standard requires an entity (transfer recipient) that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity (transfer recipient) may need to return part or all of the resources. Some are of the view that, where resources are received in advance of the taxable event, an entity (transfer recipient) should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the entity (transfer recipient) recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

~~BC29.~~BC31. ~~BC21.~~ This [draft] Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this [draft] Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this [draft] Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this [draft] Standard.

~~BC30.~~BC32. ~~BC22.~~ The treatment prescribed in this [draft] Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax

revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[1] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense. The statistical financial reporting frameworks are currently under review; in particular, a new edition of the United Nations' *System of National Accounts* is currently under development and is due to be published in 2008. The revised framework may revise the current reporting requirement in respect to tax credits. Revision of the *System of National Accounts* often precedes revisions to other statistical frameworks.

The Tax Gap

~~BC31.~~BC33. ~~BC23.~~ For some taxes, reporting entities (transfer recipients) will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

~~BC32.~~BC34. ~~BC24.~~ The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Services In-kind

BC35. ~~BC25.~~ This [draft] Standard permits, but does not require, recognition of services in kind. This [draft] Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the reporting entity (transfer recipient) has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

~~BC33.~~BC36. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received particularly if those services were integral to the operations of the entity.

Compulsory Contributions and Levies to Social Security and Other Schemes

~~BC34.~~BC37. There are a variety of different arrangements for funding social security schemes across jurisdictions. Constituents had commented to the IPSASB that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

~~BC35.~~BC38. The IPSASB considered this issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are transactions without performance obligations, and should be

[1] OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

accounted for in accordance with this [draft] Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for a revenue under this [draft] Standard.

~~BC36.~~BC39. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this [draft] Standard.

~~Implementation~~ Guidance Illustrative Examples

This guidance accompanies, but is not part of, [draft] Standard X [ED 71] ~~IPSAS 23.~~

Measurement, Recognition, and Disclosure of Revenue from ~~Non-Exchange Transactions~~ without Performance Obligations

Example 1—Income Tax (paragraph 78)

IE1. A national government (~~reporting entity~~/transfer recipient) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year), and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.

IE2. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of personal income tax on the income earned during the reporting period, to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

Example 2—Measurement of Taxation Revenue (paragraphs 81–84)

IE3. A national government (~~reporting entity~~/transfer recipient) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy-year period. The tax year and the reporting period are January 1 to December 31. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.

IE4. Income tax revenue should be recognized in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax), and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.

IE5. The model enables the reporting entity (transfer recipient) to reliably measure the assets and revenue accruing to it during the reporting period, which are then recognized and disclosed in the general purpose financial statements. The notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 3—Value Added Tax (paragraph 78)[1]

IE6. A national government (reporting entity/transfer recipient) imposes a value-added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium-sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.

IE7. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value-added goods or services, during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 4—Goods and Services Tax (paragraph 78)

IE8. A national government (~~reporting entity~~transfer recipient) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are required to electronically submit GST returns to the tax department on a weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.

IE9. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 5—Customs Duty (paragraph 78)

~~IE9.~~IE10. A national government (~~reporting entity~~transfer recipient) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

~~IE10.~~IE11. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

Example 6—Death Duties (paragraph 78)

~~IE11.~~IE12. A national government (~~reporting entity~~transfer recipient) imposes death duties of 40 percent on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim

[1] Some jurisdictions use the terms Value Added Tax (VAT) and Goods and Services Tax (GST) interchangeably.

valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

~~IE12.~~IE13. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Example 7—Property Tax (paragraph 78)

~~IE13.~~IE14. A local government (~~reporting entity~~transfer recipient) levies a tax of one percent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

~~IE14.~~IE15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the passing of the date on which the taxes are levied, July 31. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which that date occurs.

Example 8—Advance Receipts of Income Tax (paragraph 80)

~~IE15.~~IE16. Government A (~~reporting entity~~transfer recipient) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.

~~IE16.~~IE17. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The reporting entity recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Example 9—~~Grant~~ Transfer of resources to Another Level of Government for General Purposes – not binding (paragraphs 46, 91 and AG2(b))

~~IE17.~~IE18. The national government (transfer~~or~~ provider) makes a ~~grant~~ transfer of CU10 million to a local government (transfer recipient) in a socioeconomically deprived area. The local government (~~reporting entity~~transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no ~~stipulations~~ enforceable activities or eligible expenditure requirements attached to the ~~grant~~transfer. All local governments are required to prepare and present audited general purpose financial statements.

~~IE18.~~IE19. Because, the arrangement is not binding and t~~T~~here are no ~~stipulations attached to these grants~~enforceable activities or eligible expenditure requirements , there is~~and~~ no ~~performance~~ present obligation, so the transfer~~s are~~ is recognized as an asset~~s~~ and revenue in the general purpose financial statements of the reporting period in which ~~they are~~it is ~~received or receivable~~controlled by the local government.

Example 10—Transfer of resources with ~~Stipulations~~ an enforceable activity and/or eligible expenditure ~~that do not Satisfy the Definition of a Condition~~ (paragraphs 13−22)

~~IE19.~~IE20. A national government (transfer provider) makes a cash transfer of CU50 million to a state government social housing entity (transfer recipient), specifying that it:

(a) Increases the stock of social housing by an additional 1,000 units over and above any other planned increases; or

(b) Uses the cash transfer in other ways to support its social housing objectives.

If neither of these ~~stipulations~~ is satisfied, the recipient entity must return the cash to the national government.

IE21. The state government social housing entity (transfer recipient) recognizes an increase in an asset (cash) and ~~revenue~~ a liability in the amount of CU50 million when the transfer recipient has control of the transfer~~in the amount of CU50 million~~. The ~~stipulations~~ requirements in the ~~transfer~~ agreement ~~are stated so broadly as to not impose on the recipient a performance obligation –~~meet the requirements for an enforceable activity (IE20(a)) or eligible expenditure (IE20(b)) therefore ~~the~~ a ~~performance~~ present obligation ~~is imposed by the operating mandate of the entity, not by the terms of the transfer~~exists.

IE22. If the resources are used to increase the social housing stock the entity will recognize revenue and decrease the liability as the housing stock is increased (i.e., as new stock is acquired or constructed).

IE23. If the resources are used to support the entity's social housing objectives, the entity will recognize revenue and decrease the liability as the eligible expenditure is incurred.

Example 11—Transfer to a Public Sector University – unenforceable transaction (paragraph~~s~~ 46 ~~and 76~~)

~~IE20.~~IE24. The national government (transfer~~or~~ provider) transfers 200 hectares of land in a major city to a university (~~reporting entity~~transfer recipient) for the establishment of a university campus. The ~~transfer~~ agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

~~IE21.~~IE25. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17. The ~~restriction~~ obligation is not enforceable therefore does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Example 12—Grant to Another Level of Government with ~~Conditions~~ Present Obligations (paragraphs 15-22)

~~IE22.~~IE26. The national government (~~transferor~~transfer provider) ~~grants~~ provides CU10 million to a provincial government (~~reporting entity~~transfer recipient) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for new railroad or tramway systems, and 20 percent for to purchase rolling stock ~~purchases and improvements~~. Under the terms of the ~~grant~~agreement, the money can only be used as ~~stipulated~~specified, and the provincial government (transfer recipient) is required to include a note in its audited general purpose financial statements detailing how the ~~grant money~~transfer was spent. The agreement requires the ~~grant~~ transfer to be spent as specified in the current year or be returned to the national government.

IE27. The provincial government recognizes the ~~grant money~~transfer as an asset. The provincial government also recognizes a liability in respect of the ~~condition~~ present obligations attached to the grant. The binding arrangement contains three separate present obligations which can be classified as either an enforceable activity or as eligible expenditure;

(a) The obligation to use CU4 million for modernizing the existing railroad and tramway system would be classified as a requirement to incur eligible expenditure because there is no specificity as to what is required;

(b) The obligation to use CU4 million for new railroad or tramway systems would also be classified as a requirement to incur eligible expenditure, again due to the lack of specificity in the requirement;

(c) However the obligation to use CU2 million on purchasing rolling stock would be classified as an enforceable activity as the requirement to purchase rolling stock is quite specific.

~~IE23.~~IE28. As the province satisfies the ~~condition~~present obligations, that is, as it either ~~makes~~ incurs ~~authorized~~ eligible expenditure~~s~~, or completes an enforceable activity it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Example 13—Research Grant (in Substance ~~Exchange~~ a Transaction with a performance obligation) (paragraph AG7)

~~IE24.~~IE29. A large corporation that makes cleaning products (~~transferor~~transfer provider) gives money to a public university (~~reporting entity~~transfer recipient) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation ~~stipulates~~ specifies that the research results are to be shared with it before being announced to the public, and that it has the right to apply for a patent on the compound.

~~IE25.~~IE30. This is ~~an exchange~~ transaction with performance obligations because the transfer recipient is required to transfer the research results to the transfer provider (purchase), ~~.~~ ~~i~~In return for the ~~grant~~transfer.~~,~~ Therefore, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. ~~IPSAS 9~~[Draft] IPSAS [X] (ED 70) *Revenue with Performance Obligations* and IPSAS 31, *Intangible Assets* apply to this transaction.

Example 14—Debt Forgiveness (paragraphs AG43-AG46)

~~IE26.~~IE31. The national government (transfer~~or~~ provider) lent a local government (transfer recipient ~~reporting entity~~) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no ~~stipulations~~ enforceable activities or eligible expenditure requirements attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

~~IE27.~~IE32. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

~~*Purchase of Property with Exchange and Non-Exchange Components (paragraphs 8-11, 39-41)*~~

~~*A public school (reporting entity) purchases land with a fair value of CU100,000 for CU50,000 from a local government. The reporting entity concludes that the non-exchange transaction comprises two components, an exchange component and a non-exchange component. One component involves the purchase of a half share in the land for CU50,000, the other component is a non-exchange transaction that transfers the remaining half share of the land to the school.*~~

~~*In its general purpose financial statements for the reporting period in which the transaction takes place, the public school recognizes the land at CU100,000, (a cost of CU50,000 and a transfer of CU50,000), a reduction in its asset cash of CU50 000 , and revenue from a non-exchange transaction of CU50,000 (the*~~

~~*fair value of the increase in net assets recognized).*~~

Example 15—Proposed Bequest (paragraphs AG51-AG53)

~~IE28.~~IE33. A 25-year old recent graduate (transfer~~or~~ provider) of a public university names the university (~~reporting entity~~transfer recipient) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

~~IE29.~~IE34. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transfer~~or~~ provider), which has not occurred.

Example 16—Pledge – Television Appeal for Public Hospital (paragraph 104)

~~IE30.~~IE35. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (~~reporting entity~~recipient). The annual reporting date of the public hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

~~IE31.~~IE36. The public hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge, because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources; therefore it cannot recognize the asset or the related revenue until the donation is binding on the donor.

Example 17—Fine (paragraphs 56-61 and 116)

~~IE32.~~IE37. A major corporation is found guilty of polluting a river. As a penalty, it is required to clean up the pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine but the company has announced that it will appeal the case. Historically, appeals of similar cases have resulted in the collection of approximately 75% of the initial amount of the fine~~. The company has announced that it will not appeal the case~~.

~~IE33.~~IE38. The government (~~reporting entity~~transfer recipient) recognizes a receivable and revenue of ~~CU50~~ CU37.5 million in the general purpose financial statements of the reporting period in which the fine is imposed. If the transaction is material, the government also discloses: the legislation or regulation that the corporation violated to incur the fine; the fact that only CU37.5 million of that fine was recognized as revenue; and the fact that CU12.5 million of the fine was not recognized as its collection was not probable.

Example 18—External Assistance Recognized (paragraphs 91, AG36-AG41)

~~IE34.~~IE39. National Government A (~~reporting entity~~transfer recipient) enters into an external assistance agreement with National Government B (transfer provider), which provides National Government A with development assistance ~~grants~~ to support National Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A and the types or items or expenses the transfer can be spent on to further its health objectives. National Government A measures the fair value of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to the National Government B.

~~IE35.~~IE40. When the external assistance agreement becomes binding, National Government A recognizes an asset (a receivable) for the amount of CU5 million, and ~~revenue~~ a liability in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There ~~are no conditions~~is a requirement to incur eligible expenditure attached to this agreement ~~that require the entity to recognize a liability.~~therefore revenue is recognized and the liability decreased as that expenditure is incurred.

Example 19—Revenue of Aid Agency (paragraphs 91, AG54–AG58)

~~IE36.~~IE41. Green-Aid Agency (transfer recipient) relies on funding from a group of governments (transfer providers). The governments have signed a ~~formal agreement~~binding arrangement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the agreed expenses (eligible expenditure) of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time. Any funding not used in the budget year is refundable to the governments in the same proportion as the transfers were received.

~~IE37.~~IE42. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

~~IE38.~~IE43. In 20X7, Green-Aid Agency recognizes an asset of CU15 Million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.

~~IE39.~~IE44. In 20X8, Green Aid Agency recognizes a further CU38 as an asset and liability (as and when the funding is received) and then a total of CU53 million of revenue ~~from transfers~~when the eligible expenditure is incurred.. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

~~*Goods In-kind Recognized as Revenue* (paragraphs 42, 93–97)~~

~~Transferor Government A has an arrangement with the public sector reporting entity Aid Agency Inc., whereby Government A provides rice to meet its promised financial commitments to Aid Agency Inc. Based on the variability in Government A's past performance in meeting its commitments, Aid Agency Inc. has adopted an accounting policy of not recognizing the asset and revenue until receipt of the promised rice. Government A promises to provide Aid Agency Inc. with CU300,000 during 20X5. Government A subsequently transfers 1,000 metric tons of rice to Aid Agency Inc. on January 12, 20X5. The transfer of the rice takes place in one of the ports of the transferor nation. According to the details of the funding agreement between Aid Agency Inc. and Government A, the rice is valued at the previously agreed amount of CU300 per ton, with the result that the transfer of 1,000 metric tons of rice fully discharges Government A's financial commitment of CU300,000. During February and March 20X5, Aid Agency Inc. provides the rice to a network of local distribution agencies in Nations B and C in order to meet the needs of starving people.~~

~~On January 12, 20X5, the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international commodities market; CU340,000 in recipient Nation B; and~~

~~CU400,000 in recipient Nation C.~~

~~The fair value of the rice at the time of the donation must be determined to measure the revenue that Aid Agency Inc. recognizes. The financial agreement between the donor and the aid agency, which allows the rice to be valued at CU300 per metric ton, depends on a private agreement between the two parties, and does not necessarily reflect the fair value of the rice. Both Aid Agency Inc. and Donor Government A have the option of purchasing the rice on the world market at the lower price of CU250,000. The market prices for individual countries appear open to fluctuation — either as a result of trade barriers or, in the case of recipient countries, temporary distortions due to severe food shortages, and may not reflect a transfer between a knowledgeable willing buyer and a knowledgeable willing seller in an orderly market. Therefore, the world market price of CU250,000 is the most reliable and relevant reflection of fair value for the donated rice. Aid Agency Inc. recognizes an increase in an asset (rice inventory) and revenue of CU250,000 in its general purpose financial statements for the year in which the transfer is received.~~

Example 20 —Goods in-kind received as Revenue (paragraph AG54 - AG58)

IE45. A Defense Force Agency of Government A (transfer provider) agrees to provide an Aid Agency of Government B with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Government A purchased the tents for CU100 per unit two years prior to transferring them to Government B. The agreement states that the tents are valued at CU100 per unit.

IE46. Upon receipt, Government B determines that the market price for this version of tent is CU50. Therefore, Government B recognizes revenue at the value of CU50 per unit received instead of the CU100 as per the agreement.

Example 21—Disclosure of Services In-kind not Recognized (paragraphs 97–102, 110)

~~IE40.~~IE47. A public hospital's (~~reporting entity~~transfer recipient) accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age, and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

~~IE41.~~IE48. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 22—Contribution from Owners (paragraphs 0−0)

~~IE42.~~IE49. In 20X0 the neighboring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (reporting entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognizes as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminum smelter within the city, which will result in a doubling of the city's electricity demand.

The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.

~~IE43.~~IE50. When the amendment to the charter becomes binding, TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

Example 23—~~Grant Agreement Term~~Transfer from Binding Arrangement not Requiring Recognition of a Liability (paragraph 24)

~~IE44.~~IE51. National Park Department (~~reporting entity~~transfer recipient) of Country A receives a ~~grant~~ transfer of CU500,000 from the bilateral aid agency of Country B (transfer provider). The ~~grant agreement~~binding arrangement ~~stipulates~~ specifies that the ~~grant~~ transfer is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. The terms of the ~~grant~~ agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that National Park Department has received a ~~grant~~ transfer of this type from the same ~~transferor~~transfer provider. In prior years, the ~~grant~~ transfer has not been used as ~~stipulated~~specified, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

~~IE45.~~IE52. National Park Department analyzes the transaction and concludes that, although the terms of the ~~grant~~ agreement are enforceable, because the bilateral aid agency has not enforced the ~~condition~~ requirements in the past, and given no indication that it ever would, the ~~terms~~ arrangement ~~have~~ has the form of a ~~stipulation and condition~~enforceable arrangement, but not the substance. Therefore, National Park Department recognizes an increase in an asset (cash in bank) and ~~grant~~ revenue; it does not recognize a liability.

Example 24—Disclosures Made in the Financial Statements of Government A (paragraphs 108–110)

~~IE46.~~IE53. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSASs for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from ~~Non-Exchange~~ Transactions without Performance Obligations		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX

Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities recognized under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Non-Exchange Transactions

1. Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of [draft] IPSAS [X] (ED 71, *Revenue without Performance* Obligations)~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~. However, the Government takes advantage of the transitional provisions in that Standard in respect of income taxes and estate taxes.

   Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the transfer arrangement becomes binding, except for some services in-kind. The government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.

3. Where a transfer is subject to ~~conditions that~~enforceable activities or a requirement to incur eligible expenditure, if unfulfilled, require the return of the transferred resources, the Government recognizes a liability until the ~~condition is~~requirements are fulfilled.

Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions

Taxes

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accrual~~s~~ basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.

5. Assets and revenue accruing from goods and services tax are initially measured at the fair value of assets accruing to the government during the reporting period, principally cash, cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

   Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. Estate tax of 40% is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the fair value as at the date of acquisition of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the fair value of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognized when a binding transfer arrangement is in place, but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~[draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*), to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The government estimates that it will be able to reliably measure income tax on an accrual~~s~~ basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of noncompliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer ~~to it conditional upon it~~to build~~ing~~ a public hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to ~~Restrictions~~Requirements

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the ~~restriction~~ requirement that it be used for public health purposes and not be sold for 50 years. The land was acquired by the transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.

12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government, and subject to the ~~restriction~~ requirement that it not be sold for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.

14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on condition that it be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured as there are no equivalent paid positions available in the local markets and, in the absence of volunteers, the services would not be provided. The government does not recognize these services in the statements of financial position or financial performance.

Example 25 - Concessionary Loans (paragraphs 106 to 107)

~~IE47.~~IE54. An entity receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:

Year 1: no capital to be repaid

Year 2: 10% of the capital to be repaid

Year 3: 20% of the capital to be repaid

Year 4: 30% of the capital to be repaid

Year 5: 40% of the capital to be repaid

- Interest is charged at 5% per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10%.
- To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned).
- The entity built the following schools over the period of the loan:

Year 1: 1 school completed

Year 2: 3 schools completed

Year 3: 5 schools completed

Year 4: 10 schools completed

Analysis

The entity has effectively received a ~~grant~~ transfer of CU1 million and a loan of CU5 million (Note: An entity would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received an additional ~~grant~~ transfer of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10%).

The ~~grant~~ transfer of CU1 million + CU784,550 is accounted for in accordance with this [draft] Standard and, the loan with its related contractual interest and capital payments, in accordance with IPSAS 41.

1.	On initial recognition, the entity will recognize the following:			
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2.	Year 1: the entity will recognize the following:			
Dr		Liability	CU178,455	
	Cr	~~Non-exchange~~ Revenue without Performance Obligations		CU178,455
(1/10 of the schools built X CU1,784,550) (Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to IPSAS 41).				

3. Year 2: the entity will recognize the following (assuming that the entity subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	~~Non-exchange~~ Revenue without Performance Obligations		CU356,910
(3/10 schools built X CU1,784,500 – CU178,455 already recognized)				

4.	Year 3: the entity will recognize the following:			
Dr		Liability	CU356,910	
	Cr	~~Non-exchange~~ Revenue without Performance Obligations		CU356,910
(5/10 schools built X CU1,784,550 – CU535,365 already recognized)				

5.	Year 4: the entity will recognize the following:			
Dr		Liability	CU892,275	
	Cr	~~Non-exchange~~ Revenue		CU892,275

		without Performance Obligations		
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the entity would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	~~Non-exchange~~ Revenue without Performance Obligations		CU1,784,550

Interaction Between Measurement Requirements of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) Revenue without Performance Obligations) and IPSAS 41

Background

~~IE48.~~IE55. An individual donates shares in listed Entity X to public sector Entity Y on January 1, 20X8. At that date, the shares in Entity X have a fair value of CU1,000,000. At December 31, 20X8, the fair value of the shares is CU900,000. As part of the arrangement, Entity A incurs the transfer duty to have the shares transferred into its name. These costs amount to CU10,000.

~~IE49.~~IE56. ~~Listed Entity X provides telecommunications infrastructure and related services to the public. During 20X9, new technology was introduced into the telecommunications industry, making the infrastructure and equipment used by Entity X almost obsolete. This resulted in a permanent decline in the value of listed Entity X. The value of the impairment loss as at December 31, 20X9 is CU700,000~~. Entity A measures investments in shares at fair value through net assets/equity when the shares are not held for trading. Assume that the arrangement is a contractual arrangement, no present obligations arise from the donation and that the entity's reporting period ends on December 31, 20X8.

Analysis

~~IE50.~~IE57. As Entity A received the shares as a donation, it used ~~IPSAS 23~~[draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations)* to initially recognize the shares acquired and the related non-exchange revenue. However, because Entity A has acquired a financial asset, it considers the initial measurement requirements of [draft] IPSAS [X] (ED 71) ~~IPSAS 23~~ and IPSAS 41.

~~IE51.~~IE58. [Draft] IPSAS [X] (ED 71) ~~IPSAS 23~~ prescribes that assets acquired as part of a non-exchange revenue transaction are initially measured at fair value, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As the entity has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

~~IE52.~~IE59. The subsequent measurement and derecognition of the shares is addressed in IPSAS 41. The entity measures investments in shares at fair value through net assets/equity which means that the shares are measured at a fair value with any subsequent changes in fair value recognized in net assets/equity. Dividends are however recognized in surplus or deficit

The journal entries at initial acquisition and at the reporting dates are as ~~follows:~~ follows:

1. Acquisition of shares through donation				
Dr		Investment in Entity X	CU1,010,000	
	Cr	~~Non-exchange revenue~~Revenue without Performance Obligations		CU1,000,000
	Cr	Bank (Transfer costs paid)		CU10,000
2. Subsequent measurement at December 31, 20X8				
Dr		Net assets/equity (fair value adjustment of investment)	CU110,000	
	Cr	Investment in Entity X		CU110,000
~~3. Subsequent measurement at December 31, 20X9~~				
Dr		~~Impairment loss (net assets/equity)~~	~~CU700,000~~	
	Cr	~~Investment in Entity X~~		~~CU700.000~~

Example 26 – Transaction with one component which is within the scope of [draft] IPSAS (ED 70) Revenue with Performance Obligations, and another component which is within the scope of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations (paragraph 8)

IE60. A hospital foundation is raising funds by selling tickets to a networking dinner. The price of each ticket is CU300, and each ticket clearly states that if the networking dinner is cancelled, the foundation will only return CU100 to each ticket holder. Each ticket also clearly states that the remaining CU200 of consideration is non-refundable. Other than the networking dinner, the foundation is not obliged to provide any other good or service to the ticketholders.

IE61. The foundation applies paragraph 8 of [draft] IPSAS [X] (ED 71) and concludes that the disclosed cancellation terms provide evidence that each ticket consist of two components:

(a) CU100 of the transaction price relates to the promise to provide admission at the networking dinner to each ticket holder; and

(b) The remaining CU200, which is non-refundable, is considered a donation to the foundation, as the foundation is not obliged to provide any good or service in exchange for this amount.

~~IE53.~~IE62. Accordingly, CU100 of the consideration received for each ticket is within the scope of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, while the remaining CU200 per ticket is accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

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In Period Review Instructions

ED 72 – Transfer Expenses

Comment Deadline: November 18, 2019

Submit Comments to: Dave Warren (DaveWarren@ipsasb.org)

REVIEW INSTRUCTIONS FOR ED 72

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 72:

   (a) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):

      (i) The IPSASB provisionally approved the authoritative text up to September of 2019.

         a. Reviewed original text has been shaded Orange;

         b. Changes to these paragraphs are shown in tracked changes; and

         c. Reviewers are asked to perform a review if time permits.

      (ii) Paragraphs which have been added or amended since September 2019 are not shaded and where applicable, revisions are highlighted with tracked changes.

         a. Reviewers are asked to focus their attention on the following paragraphs, which have changed substantively since September 2019: 32, 45, 77, 89, 91, 97, 101, 141, AG8, AG9, AG25, AG76, AG89, AG94, AG97 – AG98, and AG102.

         b. The following paragraphs have been deleted since September 2019: 130 – 131, AG44, AG51, AG53 – AG55, AG116 – AG118. Reviewers are asked to review these deletions and comment on whether they agree with their removal.

      (iii) Amendments to Other IPSAS have been added since September 2019. Reviewers are asked to review these proposed amendments and comment on whether the proposed amendments are complete and accurate.

   (b) Basis for Conclusions:

      (i) Basis for Conclusions paragraphs were developed to provide an overview of the transfer expenses project and to explain key decisions made by the IPSASB.

         a. None of these paragraphs have been previously reviewed by the IPSASB.

         b. Reviewers are asked to review these paragraphs for consistency with the IPSASB's decisions from previous meetings.

   (c) Implementation Guidance and Illustrative Examples:

      (i) The Implementation Guidance and Illustrative Examples in ED 72 have not been reviewed by the IPSASB. As these sections are not authoritative, reviewers are asked

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to review the implementation guidance and illustrative examples for technical accuracy and understandability if they have time.

Exposure Draft 72
[Month] [Year]
Comments due: [Date]

IPSAS®

Proposed International Public Sector Accounting Standard®

Transfer Expenses

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.

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

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REQUEST FOR COMMENTS

This Exposure Draft, *Transfer Expenses*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [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 of the website must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

~~**This Exposure Draft forms part of the IPSASB's project on Non-Exchange Expenses.**~~

Objective of the Exposure Draft

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

Guide for Respondents

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

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

Specific Matter for Comment 1:

Do you agree with the IPSASB's proposals, and the rationale set out in paragraphs BC4–BC15:

(a) To limit the scope of this Exposure Draft to transfers; and

(b) The resulting definition of a transfer expense?

If not, what changes to the scope and definition would you make?

Specific Matter for Comment 2:

Do you agree with the IPSASB's proposals to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations?

If not, what distinction, if any, would you make?

Specific Matter for Comment 3:

Do you agree with the IPSASB's proposals, and the rationale set out in paragraphs BC16–BC34, for recognizing and measuring transfer expenses with performance obligations as follows:

(a) That a transfer provider has an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and

(b) As a consequence, the public sector performance obligation approach should be used?

If not, how would you recognize and measure transfer expenses with performance obligations?

Specific Matter for Comment 4:

Do you agree with the IPSASB's proposals, and the rationale set out in paragraphs BC45–BC59 for transfer expenses without performance obligations as follows:

(a) That a transfer provider does not have an asset where a transfer recipient is required to undertake enforceable activities or incur eligible expenditure, but is not required to transfer goods and services to third-party beneficiaries;

(b) As a consequence, an entity should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources; and

(c) An entity should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

If not, how would you recognize and measure transfer expenses without performance obligations?

EXPOSURE DRAFT 72, TRANSFER EXPENSES

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Basis for Conclusions

Implementation Guidance

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Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.**

Paragraphs AG2–AG4 provide additional guidance on meeting the objective.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for transfer expenses as defined in this [draft] Standard.**

3. **An entity shall apply this [draft] Standard to transfer expenses as defined in this [draft] Standard. This [draft] Standard does not apply to:**

(a) **Operating leases as defined in IPSAS 13, *Leases*;**

~~(a)~~(b) **Provisions as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**

(c) **Collective services and individual services as defined in IPSAS 19;**

~~(b)~~(d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*, including any associated payroll taxes;**

(e) **Social benefits as defined in IPSAS 42, *Social Benefits*;**

(f) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts);**

~~(c)~~(g) **Share-based payments (see the international or national accounting standard dealing with share-based payments) *and***

~~(d)~~(h) **Income taxes (see the international or national accounting standard dealing with income taxes).**

4. Contributions from owners and distributions to owners are defined in IPSAS 1, *Presentation of Financial ~~s~~Statements*. Contributions from owners and distributions to owners do not meet the definition of a transfer expense, as defined in this [draft] Standard, for the following reasons.

(a) Contributions from owners establish a controlling entity's or an investor's financial interest in ~~a~~ the net assets/equity of the controlled entity or investee. This financial interest is recognized as an asset in the controlling entity's or the investor's separate financial statements, and therefore does not satisfy the definition of a transfer expense, which requires that the entity provides a good, service, or asset to another entity without receiving any good, service, or asset in return.

(b) Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment. Distributions to owners are transfers in response to earlier investments by owners, and therefore do not satisfy the definition of a transfer expense, which requires that the entity

provides a good, service, or asset to another entity without receiving any good, service, or asset in return.

Consequently, contributions from owners and distributions to owners are outside the scope of this [draft] Standard. An entity shall account for contributions to owners and distributions to owners in accordance with IPSAS 1.

5. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards.

(a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 71–84 (transfer expenses with performance obligations) or paragraphs 102~~101~~–114~~113~~ (transfer expenses without performance obligations) to account for the amount of the transaction consideration or other transfer of resources that remains (if any).

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

Paragraphs AG5–AG6 provide additional guidance on the scope of this Standard.

Definitions

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

Stand-alone purchase price (of a good or service) is the price at which an entity would purchase a promised good or service[1] separately from a transfer recipient.

The transaction consideration (for a binding arrangement which imposes one or more performance obligations on a transfer recipient) is the amount of consideration to which an entity (the transfer provider) expects to be obligated to pay in exchange for the transfer recipient transferring promised goods or services to a third-party beneficiary.

A transfer expense is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return (paragraphs AG7–AG8 provides additional guidance).

~~**A transfer provider is an entity that provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return.**~~

A transfer provider's binding arrangement asset is an entity's right to have goods or services transferred to a third-party beneficiary in exchange for consideration provided.

A transfer provider's binding arrangement liability is an entity's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to

[1] References to goods and services or to goods or services are to be read as incorporating references to assets. This is because, a transfer recipient will consider any item transferred to a third-party beneficiary to be a good or service, even if in some cases a third-party beneficiary would classify the item as a non-current asset on initial recognition.

a third-party beneficiary when that obligation is conditioned on something other than the passage of time (for example, the transfer recipient's future performance).

~~**A transfer recipient is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity (paragraph AG8 provides additional guidance).**~~

7. The following terms are defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

A binding arrangement;

A contract;

Control of an asset;

A performance obligation; and

A third-party beneficiary.

Paragraphs AG10–AG15 provide additional guidance on binding arrangements. Paragraphs AG16–AG24 provide additional guidance on the enforceability of binding arrangements.

The following terms are defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 71):

Eligible expenditure;

Enforceable activity;

Fines;

Taxes

Transfer provider; and

Transfer recipient.

Paragraph AG9 provides additional guidance on the transfer recipient.

Expenses are defined in IPSAS 1.

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

Transfer Expenses with Performance Obligations

8. **An entity may incur transfer expenses in accordance with a binding arrangement it has entered into with a transfer recipient, which requires the transfer recipient to provide goods or services to a third-party beneficiary. Where the binding arrangement imposes performance obligations, as defined in [draft] IPSAS [X] (ED 70), on the transfer recipient, an entity (the transfer provider) shall recognize and measure the related ~~transfer~~ expenses by applying the Public Sector Performance Obligation Approach in paragraphs 10–88 below.**

Public Sector Performance Obligation Approach

9. To meet the objectives in paragraph 1, this [draft] Standard requires a reporting entity to recognize transfer expenses with performance obligations by applying the following steps:

(a) Step 1: Identifying the binding arrangement with a transfer recipient (see paragraphs 10–22);

(b) Step 2: Identifying the transfer recipient's performance obligations in the binding arrangement (see paragraphs 23–31);

(c) Step 3: Determining the transaction consideration (see paragraphs 46–70);

(d) Step 4: Allocating the transaction consideration to the transfer recipient's performance obligations in the binding arrangement (see paragraphs 46 and 71–84); and

(e) Step 5: Recognizing expenses when (or as) the transfer recipient satisfies a performance obligation (see paragraphs 32–45).

Recognition

Identifying the Binding Arrangement (Step 1)

10. **An entity (the transfer provider) shall account for a transfer expense which imposes performance obligations on the transfer recipient that is within the scope of this [draft] Standard only when all of the following criteria are met:**

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

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

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

(d) **It is probable that the transfer recipient will transfer the goods or services to the third-party beneficiary as specified in the binding arrangement. In evaluating whether the transfer of the goods or services is probable, an entity shall consider only the transfer recipient's ability and intention to transfer the goods or services when they are due.**

Paragraph AG26 provides additional guidance.

11. A binding arrangement may include one or more components that meet the criteria in paragraph 10, and another component or components that do not meet the criteria in paragraph 10. An entity shall recognize and measure such a binding arrangement as follows:

(a) The component or components of the binding arrangement that meet the criteria in paragraph 10 shall be treated as a separate binding arrangement, and recognized and measured in accordance with paragraphs 10–88; and

(b) The component or components of the binding arrangement that do not meet the criteria in paragraph 10 shall be treated as a separate binding arrangement for a transfer expense without performance obligations, and recognized and measured in accordance with paragraphs 90–114~~113~~.

Paragraphs AG52–AG53 provide guidance on determining the transaction consideration where components of the binding arrangement do not relate to the transfer recipient's performance obligations.

12. A binding arrangement 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 or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

13. Some binding arrangements with transfer recipients may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. 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.

14. 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 paid, and is not yet obligated to pay, consideration to the transfer recipient in exchange for promised goods or services; and

    (b) The transfer recipient has not yet transferred any promised goods or services to a third-party beneficiary.

15. If a binding arrangement with a transfer recipient meets the criteria in paragraph 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 transfer recipient's ability to transfer the promised goods or services deteriorates significantly, an entity would reassess whether it is probable that a third-party beneficiary will receive the goods or services promised in exchange for the consideration.

16. If a binding arrangement imposes performance obligations on a transfer recipient but does not meet the criteria in paragraph 10, an entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 10 are subsequently met.

17. When a binding arrangement that imposes performance obligations on a transfer recipient does not subsequently meet the criteria in paragraph 10, an entity shall recognize a transfer expense in accordance with paragraphs 89–96 below.

Combination of Binding Arrangements

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

(a) The binding arrangements are negotiated as a package with a single 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 23–31.

Modifications to a Binding Arrangement

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

20. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 50–54 on estimating variable consideration and paragraphs 55–57 on constraining estimates of variable consideration.

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

(a) The scope of the binding arrangement increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 27–31); and

(b) The price of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone purchase prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone purchase price of an additional good or service for a discount that the entity receives for repeat purchases.

22. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 21, an entity shall account for the promised goods or services not yet received by the third-party beneficiary at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the

remaining goods or services are distinct from the goods or services received by the third-party beneficiary on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 23(b)) is the sum of:

(i) The consideration promised to the transfer recipient (including amounts already received by the transfer recipient) that was included in the estimate of the transaction consideration and that had not been recognized as an expense; and

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

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

(c) If the remaining goods or services are a combination of items (a) and (b), then the 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.

Identifying Performance Obligations (Step 2)

23. **At the inception of the binding arrangement, an entity (the transfer provider) shall assess the goods or services promised by the transfer recipient in a binding arrangement and shall identify as a performance obligation of the transfer recipient each promise to transfer to a third-party beneficiary either:**

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

(b) **A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary (see paragraph 24).**

Paragraphs AG27–AG37 provide additional guidance on identifying performance obligations.

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

(a) Each distinct good or service in the series that the transfer recipient promises to transfer to the third-party beneficiary would meet the criteria in paragraph 35 to be a transfer recipient's performance obligation satisfied over time; and

(b) In accordance with paragraphs 39–40, the same method would be used to measure the transfer recipient's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the third-party beneficiary.

Promises in Transfer Expenses with Performance Obligations

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

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

Distinct Goods or Services

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

(a) Transfer of goods produced by a transfer recipient to a third-party beneficiary (for example, inventory of a manufacturer);

(b) Transfer of goods purchased by a transfer recipient to a third-party beneficiary (for example, merchandise of a retailer);

(c) Transfer of rights to goods or services purchased by a transfer recipient to a third-party beneficiary (for example, emission allowances purchased and subsequently transferred by a transfer recipient);

(d) A transfer recipient performing a task for a third-party beneficiary that is agreed upon in the binding arrangement (for example, a supplier providing computer maintenance services to schools);

(e) A transfer recipient providing a service of standing ready to provide goods or services to third party beneficiaries (for example, paramedics on site at an athletic competition organized by a community group);

(f) A transfer recipient providing a service of arranging for another party to transfer goods or services to a third-party beneficiary (for example, acting as an agent of another party);

(g) A transfer recipient constructing, manufacturing or developing an asset on behalf of a third-party beneficiary (for example, a residential development constructed for a housing association); and

(h) A transfer recipient granting licenses (see paragraphs AG69–AG82).

28. A good or service that is promised by a transfer recipient is distinct if both of the following criteria are met:

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

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

29. A third-party beneficiary can receive economic benefits or service potential from a good or service in accordance with paragraph 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 third-party beneficiary may be able to receive the economic benefits or service potential from a good or service on its own. For other goods or services, a third-party beneficiary may be able to receive the economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the transfer recipient or another entity) or a resource that the third-party beneficiary has already obtained from the transfer recipient (including goods or services that the transfer recipient will have already transferred to the third-party beneficiary under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the third-party beneficiary can receive the economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the transfer recipient regularly provides a good or service separately would indicate that a third-party beneficiary can receive the economic benefits or service potential from the good or service on its own or with other readily available resources.

30. In assessing whether an transfer recipient's promises to transfer goods or services to the third-party beneficiary are separately identifiable in accordance with paragraph 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 third-party beneficiary are not separately identifiable include, but are not limited to, the following:

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

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

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

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

Satisfaction of Performance Obligations (Step 5)

32. **An entity (the transfer provider) shall recognize an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a third-party beneficiary. An asset is transferred when (or as) the third-party beneficiary obtains control of that asset. An entity (the transfer provider) may determine the point at which the third-party beneficiary obtains control of the asset by reference to the transfer recipient losing control of that asset where the entity (the transfer provider) has more reliable information to make this assessment.**

Paragraphs AG38–AG51~~AG1~~ provide additional guidance on the satisfaction of performance obligations.

33. For each performance obligation identified in accordance with paragraphs 23–31, an entity shall determine at the inception of the binding arrangement whether the transfer recipient satisfies the performance obligation over time (in accordance with paragraphs 35–37) or satisfies the performance obligation at a point in time (in accordance with paragraph 38). If the transfer recipient does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

34. Goods and services are assets, even if only momentarily, when they are received and used by the third-party beneficiary (as in the case of many services). Control of an asset, which is defined in [draft] IPSAS [X] (ED 70), refers to the ability of the third-party beneficiary to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, an asset. The economic benefits or service potential embodied in the asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the third-party beneficiary's objectives, that can be obtained directly or indirectly in many ways, such as by:

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

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

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

(d) Selling or exchanging the asset;

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

(f) Holding the asset.

Performance Obligations Satisfied Over Time

35. An entity (the transfer provider) recognizes an expense over time when the transfer recipient satisfies a performance obligation over time. A transfer recipient transfers control of a good or service over time and, therefore, satisfies a performance obligation over time, if one of the following criteria is met:

(a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG39–AG40);

(b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that the third-party beneficiary controls as the asset is created or enhanced (see paragraph AG41); or

(c) The transfer recipient's performance does not create an asset with an alternative use to the transfer recipient (see paragraph 36) and the transfer recipient has an enforceable right to payment for performance completed to date (see paragraph 37).

36. An asset created by a transfer recipient's performance does not have an alternative use ~~to~~ for the transfer recipient if the transfer recipient is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the transfer recipient is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity (the transfer provider) shall not update the assessment of the transfer recipient's alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AG42–AG44 provide guidance for assessing whether an asset has an alternative use to a transfer recipient.

37. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether the transfer recipient has an enforceable right to payment for performance completed to date in accordance with paragraph 35(c). The transfer recipient's right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the transfer recipient must be entitled to ~~an amount that at least compensates it~~payment for performance completed to date if the binding arrangement is terminated by the entity (the transfer provider) or another party for reasons other than the transfer recipient's failure to perform as promised. Paragraphs ~~AG43~~AG45–AG48 provide guidance for assessing the existence and enforceability of a transfer recipient's right to payment and whether a transfer recipient's right to payment would entitle it to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

38. An entity (the transfer provider) recognizes an expense at a point in time when the transfer recipient satisfies a performance obligation at a point in time. If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, a transfer recipient satisfies the performance obligation at a point in time. To determine the point in time at which a third-party beneficiary obtains control of a promised asset and the transfer recipient satisfies a performance obligation, the entity (the transfer provider) shall consider the requirements for control in paragraphs 32–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

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

(b) The third-party beneficiary has legal title to the asset—legal title may indicate which party has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that a third-party beneficiary has obtained control of the asset. If a transfer recipient recipient retains legal title solely as protection against the entity's (the transfer provider's) failure to pay, those rights of the transfer recipient would not preclude the third-party beneficiary from obtaining control of an asset.

(c) The transfer recipient has transferred physical possession of the asset—the third-party beneficiary's physical possession of an asset may indicate that the third-party beneficiary has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some bill-and-hold arrangements, the transfer recipient may have physical possession of an asset that the third-party beneficiary controls. Paragraphs AG83–AG86 provide guidance on accounting for bill-and-hold arrangements.

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

(e) The third-party beneficiary has accepted the asset—the third-party beneficiary's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits and service potential from, the asset. To evaluate the effect of the acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG87–AG88.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

39. For each performance obligation satisfied over time by a transfer recipient in accordance with paragraphs 35–37, an entity (the transfer provider) shall recognize an expense over time by measuring the transfer recipient's progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict a transfer recipient's performance in transferring control of goods or services promised to the third-party beneficiary (i.e., the satisfaction of the transfer recipient's performance obligation).

40. An entity (the transfer provider) shall apply a single method of measuring the transfer recipient's progress for each of the transfer recipient's performance obligations satisfied over time and the entity (the transfer provider) shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for Measuring Progress

41. Appropriate methods for an entity (a transfer provider) to measure the transfer recipient's progress are usually output methods. Input methods may also be used where such information is both available to the entity (the transfer provider) and relevant to the assessment of an expense. Paragraphs AG49–~~AG1~~AG51 ~~–~~provide guidance for using output methods and input methods to measure a transfer recipient's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the transfer recipient promised to transfer to the third-party beneficiary.

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

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

Reasonable Measures of Progress

44. An entity (the transfer provider) shall recognize an expense for a transfer recipient's performance obligation satisfied over time only if the entity can reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure a transfer recipient's progress towards complete satisfaction of a performance obligation if the entity (the transfer provider) lacks reliable information that would be required to apply an appropriate method of measuring progress.

45. In some circumstances (for example, in the early stages of a binding arrangement), an entity (the transfer provider) may not be able to ~~reasonably~~ reliably measure the outcome of a transfer recipient's performance obligation at that point. Where the entity expects to be able to measure the outcome of a transfer recipient's performance obligation at a later date, ~~T~~the entity shall not recognize an expense until such time that it can reasonably measure the outcome of the transfer recipient's performance obligation.

Measurement

46. **When (or as) a transfer recipient satisfies a performance obligation, an entity (the transfer provider) shall recognize as an expense the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 55–57) that is allocated to that performance obligation.**

Determining the Transaction Consideration (Step 3)

47. An entity (a transfer provider) shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the value of the resources (i.e., the consideration) that the entity expects to transfer to the transfer recipient, in exchange for transfer recipient transferring the promised goods or services to the third-party

beneficiary. The consideration promised in a binding arrangement with performance obligations may include fixed amounts, variable amounts, or both.

48. The nature, timing and amount of consideration promised by an entity (a transfer provider) affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:

(a) Variable consideration (see paragraphs 50–54 and 58);

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

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

(d) Non-cash consideration (see paragraphs 65–67); and

(e) Consideration receivable by an entity (see paragraphs 68–70).; and

49. For the purpose of determining the transaction consideration, an entity (a transfer provider) shall assume that the goods or services will be transferred by the transfer recipient to the third-party beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

50. If the consideration promised in a binding arrangement includes a variable amount, an entity (a transfer provider) shall estimate the amount of consideration to which the transfer recipient will be entitled (and which the entity will be obligated to pay) in exchange for transferring the promised goods or services to the third-party beneficiary.

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

52. The variability relating to the consideration promised by an entity (the transfer provider) may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:

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

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

53. An entity (the transfer provider) 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 which it will be required to pay to the transfer recipient:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if 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, a transfer recipient either achieves a performance bonus or does not).

54. An entity (a transfer provider) shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration which the entity will be required to pay to the transfer recipient. 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 assessment process.

Constraining Estimates of Variable Consideration

55. An entity (the transfer provider) shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is ~~highly~~ probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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

(a) The amount of consideration is highly susceptible to factors outside the 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 transfer recipient has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

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

57. An entity (the transfer provider) shall apply paragraph AG80 to account for an expense in the form of a usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

58. At the end of each reporting period, an entity (the transfer provider) shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity (the transfer provider) shall account for changes in the transaction consideration in accordance with paragraphs 85–88.

The Existence of a Significant Financing Component in the Binding Arrangement

59. In determining the transaction consideration, 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 entity (the transfer provider) or the transfer recipient with a significant benefit of financing the transfer of goods or services to the third-party beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

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

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

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

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

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

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

(a) The entity (the transfer provider) paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the entity (the transfer provider) or a third-party beneficiary.

(b) A substantial amount of the consideration promised by the entity (the transfer provider) is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the entity (the

transfer provider) or the transfer recipient (for example, if the consideration is a third-party beneficiary usage-based royalty).

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

62. As a practical expedient, an entity (the transfer provider) 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 transfer recipient transfers a promised good or service to a third-party beneficiary and when the entity (the transfer provider) pays for that good or service will be one year or less.

63. To meet the objective in paragraph 60 when adjusting the promised amount of consideration for a significant financing component, an entity (the transfer provider) shall use the discount rate that would be reflected in a separate financing transaction between the entity and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the entity (the transfer provider) or the transfer recipient, 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 entity (the transfer provider) would pay in cash for the goods or services when (or as) they transfer to a third-party beneficiary. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances.

64. An entity shall present the effects of financing (interest expense or interest revenue) separately from transfer expenses with performance obligations in the statement of financial performance. Interest expense or interest revenue is recognized only to the extent that a transfer provider's binding arrangement liability (or payable) or a transfer provider's binding arrangement asset is recognized in accounting for a transfer expense with performance obligations.

Non-Cash Consideration

65. To determine the transaction consideration for binding arrangements in which the entity (the transfer provider) promises consideration in a form other than cash, the entity (the transfer provider) shall measure the non-cash consideration (or promise of non-cash consideration) at the carrying amounts of the assets transferred or to be transferred.

66. If the carrying amount of the asset is not known, for example because the entity (the transfer provider) has promised to provide services, and the costs of those services will not be known until the services have been provided, the entity shall apply paragraphs 50–57 in measuring the non-cash consideration.

67. If the entity (the transfer provider) contributes goods or services (for example, materials, equipment or labor) to facilitate a transfer recipient's fulfilment of the binding arrangement, the entity (the transfer provider) shall assess whether it loses control of those contributed goods or services. If so, the entity

(the transfer provider) shall account for the contributed goods or services as non-cash consideration transferred to the transfer recipient.

Consideration Receivable by a Transfer Provider

68. Consideration receivable by an entity (a transfer provider) includes cash amounts that a transfer recipient pays, or expects to pay, to the entity. Consideration receivable by an entity (a transfer provider) also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the transfer recipient. An entity shall account for consideration receivable from a transfer recipient as a reduction of the transaction consideration and, therefore, of an expense unless the receipt by the entity (the transfer provider) is in exchange for a distinct good or service (as described in paragraphs 27–31) that the entity (the transfer provider) transfers to the transfer recipient. If the consideration receivable by an entity (a transfer provider) includes a variable amount, the entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–57.

69. If consideration receivable by an entity (a transfer provider) is a payment for a distinct good or service transferred to a transfer recipient, then the entity shall account for the sale of the good or service in accordance with [draft] IPSAS [X] (ED 70). However, if the amount of consideration receivable by the entity (the transfer provider) exceeds the carrying amount of the distinct good or service that the entity transfers to the transfer recipient (or, where the carrying amount is not known, the estimated cost of the distinct good or service), then the entity shall account for such an excess as a reduction of the transaction consideration.

70. Accordingly, if consideration receivable by an entity (a transfer provider) is accounted for as a reduction of the transaction consideration, an entity shall recognize the reduction of an expense when (or as) the later of either of the following events occurs:

(a) The entity recognizes an expense for the receipt by the ~~the~~ third-party beneficiary of the related goods or services from the transfer recipient; and

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

Allocating the Transaction Consideration to Performance Obligations (Step 4)

71. **The objective when allocating the transaction consideration is for an entity (the transfer provider) to allocate the transaction consideration to each of the transfer recipient's performance obligations (or distinct goods or services) in an amount that depicts the cost which the entity (the transfer provider) expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.**

72. To meet the allocation objective, an entity (a transfer provider) shall allocate the transaction consideration to each of the transfer recipient's performance obligations identified in the binding arrangement on a relative stand-alone purchase price basis in accordance with paragraphs 74–78, except as specified in paragraphs 79–81 (for allocating discounts) and paragraphs 82–84 (for allocating consideration that includes variable amounts).

73. Paragraphs 74–84 do not apply if a binding arrangement only imposes one performance obligation on the transfer recipient. However, paragraphs 82–84 may apply if a transfer recipient promises to

transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 23(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Purchase Prices

74. To allocate the transaction consideration to each of the transfer recipient's performance obligations on a relative stand-alone purchase price basis, an entity (a transfer provider) shall determine the stand-alone purchase price at the inception of the binding arrangement of the distinct good or service underlying each of the transfer recipient's performance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone purchase prices.

75. The stand-alone purchase price is the price at which an entity (the transfer provider) would purchase a promised good or service to be transferred to a third-party beneficiary separately from a transfer recipient. The best evidence of a stand-alone purchase price is the observable price of a good or service when the entity (the transfer provider) purchases that good or service separately in similar circumstances and from similar transfer recipients. In a binding arrangement, stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone purchase price of that good or service.

76. If a stand-alone purchase price is not directly observable, an entity (a transfer provider) shall estimate the stand-alone purchase price at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 71. When estimating a stand-alone purchase price, an entity (the transfer provider) shall consider all information (including entity-specific factors, information about the transfer recipient or class of transfer recipient, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

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

(a) Adjusted market assessment approach—an entity (the transfer provider) could evaluate the market in which it purchases goods or services to be transferred to third-party beneficiaries and estimate the price that a transfer recipient in that market would be willing to accept for those goods or services. That approach might include referring to prices from the other entities providing similar goods or services.

~~(b) Expected cost approach—where an entity (a transfer provider) produces equivalent goods or services itself as well as purchasing those goods and services from transfer recipients, the entity (the transfer provider) may be able to forecast its expected costs of satisfying a performance obligation, and adjust that cost for the expected differences between producing the goods or services directly and purchasing them from a transfer recipient.~~

~~(c)~~(b) Residual approach—an entity may estimate the stand-alone purchase price by reference to the total transaction consideration less the sum of the observable stand-alone purchase prices of other goods or services promised in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 76, the stand-alone purchase price of a good or service only if one of the following criteria is met:

(i) The entity (the transfer provider) purchases the same good or service from different transfer recipients (at or near the same time) for a broad range of amounts (i.e., the

purchase price is highly variable because a representative stand-alone purchase price is not discernible from past transactions or other observable evidence); or

(ii) The entity (the transfer provider) has not previously purchased the good or service on a stand-alone basis (i.e., the purchase price is uncertain).

78. A combination of methods may need to be used to estimate the stand-alone purchase prices of the goods or services promised by the transfer recipient in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone purchase prices. For example, an entity (a transfer provider) may use a residual approach to estimate the aggregate stand-alone purchase price for those promised goods or services with highly variable or uncertain stand-alone purchase prices and then use another method to estimate the stand-alone purchase prices of the individual goods or services relative to that estimated aggregate stand-alone purchase price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone purchase price of each promised good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone purchase prices would be consistent with the allocation objective in paragraph 71 and the requirements for estimating stand-alone purchase prices in paragraph 76.

Allocation of a Discount

79. An entity (a transfer provider) receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone purchase prices of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity (the transfer provider) has observable evidence in accordance with paragraph 80 that the entire discount relates to only one or more, but not all, of the transfer recipient's performance obligations in a binding arrangement, the 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 (the transfer provider) allocating the transaction consideration to each of the transfer recipient's performance obligations on the basis of the relative stand-alone purchase prices of the underlying distinct goods or services.

80. An entity (the transfer provider) shall allocate a discount entirely to one or more, but not all, of the transfer recipient's performance obligations in the binding arrangement if all of the following criteria are met:

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

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

(c) The discount attributable to each bundle of goods or services described in paragraph 80(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the transfer recipient's performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.

81. If a discount is allocated entirely to one or more of the transfer recipient's performance obligations in the binding arrangement in accordance with paragraph 80, an entity (the transfer provider) shall

allocate the discount before using the residual approach to estimate the stand-alone purchase price of a good or service in accordance with paragraph 77(b).

Allocation of Variable Consideration

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

(a) One or more, but not all, of the transfer recipient's performance obligations in the binding arrangement (for example, a bonus may be contingent on a third-party beneficiary receiving a promised good or service within a specified period of time); or

(b) One or more, but not all, distinct goods or services promised by the transfer recipient in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 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).

83. An entity (the transfer provider) shall allocate a variable amount (and subsequent changes to that amount) entirely to one of a transfer recipient's performance obligations or to a distinct good or service that forms part of a transfer recipient's single performance obligation in accordance with paragraph 23(b) if both of the following criteria are met:

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

(b) Allocating the variable amount of consideration entirely to one of the transfer recipient's performance obligations or the distinct good or service is consistent with the allocation objective in paragraph 71 when considering all of the performance obligations and payment terms in the binding arrangement.

84. The allocation requirements in paragraphs 71–81 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 83.

Changes in the Transaction Consideration

85. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity expects to pay in exchange for the promised goods or services to be transferred to third-party beneficiaries.

86. An entity (the transfer provider) shall allocate to the transfer recipient's performance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone purchase prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as an expense, or as a reduction of an expense, in the period in which the transaction consideration changes.

87. An entity (a transfer provider) shall allocate a change in the transaction consideration entirely to one or more, but not all, of the transfer recipient's performance obligations or distinct goods or services

promised in a series that forms part of a single performance obligation in accordance with paragraph 23(b) only if the criteria in paragraph 83 on allocating variable consideration are met.

88. An entity (the transfer provider) shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 19–22. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 85–87 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

(a) An entity (the transfer provider) shall allocate the change in the transaction consideration to the transfer recipient's performance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 22(a).

(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 21, an entity (the transfer provider) shall allocate the change in the transaction consideration to the transfer recipient's performance obligations in the modified binding arrangement (i.e., the transfer recipient's performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Transfer Expenses without Performance Obligations

89. **An entity (a transfer provider) shall recognize and measure transfer expenses without performance obligations in accordance with paragraphs 90–118117 below. Transfer expenses without performance obligations may arise:**

(a) Where the entity (the transfer provider) incurs ~~transfer~~ expenses in accordance with a binding arrangement it has entered into with a transfer recipient, where the binding arrangement imposes requirements on the transfer recipient to undertake enforceable activities and/or requirements to incur eligible expenditure, as defined in [draft] IPSAS [X] (ED 71), ~~on the transfer recipient,~~ rather than~~does not impose~~ performance obligations, as defined in [draft] IPSAS [X] (ED 70)~~; or, on the transfer recipient (e.g., the binding arrangement does not require the transfer recipient to provide goods or services to a third-party beneficiary). Alternatively, an~~

~~(c)~~(b) Where the entity (~~a~~the transfer provider) ~~may~~ incurs ~~transfer~~ expenses without the existence of a binding arrangement. ~~In both cases, the entity (the transfer provider) shall recognize and measure transfer expenses without performance obligations in accordance with paragraphs 90–117 below.~~

Recognition

~~89.~~90. **An entity (a transfer provider) shall recognize a transfer expense without performance obligations at the earlier of the following dates:**

(a) **When the entity (the transfer provider) has a present obligation to transfer resources to a transfer recipient. In such cases, the entity (the transfer provider) shall recognize a liability representing its obligation to transfer the resources; and**

(b) **When the entity (the transfer provider) ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases,**

the entity derecognizes the resources it ceases to control in accordance with other Standards.

~~90.~~91. For a present obligation to exist, the transfer recipient must be able to enforce the transfer of resources by the entity (the transfer provider), i.e., there must be a binding arrangement ~~even though~~ that ~~agreement does not~~ imposes ~~performance obligations (as defined in [draft] IPSAS [X] (ED 70))~~ requirements to undertake enforceable activities and/or requirements to incur eligible expenditure on the transfer recipient. For a binding arrangement to exist, the following conditions must be met:

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

(b) The entity can identify each party's rights regarding the obligations to be performed;

(c) The entity can identify the payment terms for the contribution to be transferred; and

(d) It is probable that the transfer recipient will perform its obligations as specified in the binding arrangement. In evaluating whether the performance of the transfer recipient's obligations is probable, an entity shall consider only the transfer recipient's ability and intention to perform its obligations in accordance with the terms of the binding arrangement.

~~91.~~92. Transfers to be made outside of a binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the entity (the transfer provider) transferring the resources. Paragraphs AG16–AG24 provide additional guidance on enforceability.

~~92.~~93. For the purpose of applying this [draft] Standard, where a transfer expense without performance obligations is to be made under a binding arrangement, the transfer expense without performance obligations does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

(a) The entity (the transfer provider) has not yet transferred, and is not yet obligated to transfer, any resources to the transfer recipient; and

(b) The transfer recipient has not yet performed any activities that it agreed to perform as part of the binding arrangement.

Debt Forgiveness

~~93.~~94. **An entity (a transfer provider) may waive their right to collect a debt owed by another entity (a transfer recipient), effectively canceling the debt. The entity (the transfer provider) shall recognize an ~~transfer~~ expense ~~without performance obligations~~ at the date that it derecognizes (in accordance with IPSAS 41, *Financial Instruments*) the financial asset, or portion of the financial asset, that it has waived its right to collect.**

~~94.~~95. Where a controlling entity (a transfer provider) forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraph 4. In accordance with paragraph 4, contributions from owners are outside the scope of this [draft] Standard.

Transfer Expenses without Performance Obligations Made as a Series of Transfers

~~95.~~96. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the entity enters into a binding arrangement to provide annual funding over a three-year period. An entity applies the requirements of paragraphs 90–93 to each transfer of resources ~~separately~~ to determine whether an expense is to be recognized.

Transfer Expenses without Performance Obligations Subject to Appropriations

97. Where a binding arrangement specifies that the resources to be transferred to a transfer recipient by an entity (the transfer provider) are subject to the appropriation being approved, the entity (the transfer provider) considers substance over form. The limitation (that the resources to be transferred are subject to the appropriation being approved) has substance if the entity (the transfer provider) is prohibited from transferring the resources until the appropriation is approved.

~~96.~~98. Transfer expenses without performance obligations that are, in substance, subject to appropriations shall not be recognized as a liability prior to the funds being appropriated. Following the appropriation, an entity (a transfer provider) applies paragraphs 90–96 in determining when to recognize an expense. Paragraphs AG96–AG100~~AG97~~ provide additional guidance on appropriations.

Modifications to a Binding Arrangement

~~97.~~99. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

~~98.~~100. An entity (a transfer provider) shall account for modifications to a binding arrangement for transfer expenses without performance obligations as follows:

(a) No adjustment is recognized for resources already transferred by the entity (the transfer provider) to the transfer recipient and for which an expense has been recognized; and

(b) An entity (a transfer provider) shall reassess the extent to which it has a present obligation to transfer resources to the transfer recipient at the date of the modification, based on the terms of the modified binding arrangement. Any difference between the present obligation based on the terms of the modified binding arrangement and the amount previously recognized as a liability shall be accounted for as an adjustment to expenses at the date of the modification.

Taxes Paid or Payable

~~99.~~101. Taxes are defined in [draft] IPSAS [X] (ED 71). For the purpose of applying this [draft] Standard, an obligation to pay tax to a public sector entity is a transfer expense without performance obligations. ~~However, as a result of the statutory nature of taxation, a~~An entity recognizes an asset for taxes paid in advance of ~~the entity~~ having a present obligation to pay the taxes because in such circumstances it has the right to an immediate refund and therefore has not lost control of the transferred resources

(see paragraph 90(b)), notwithstanding the requirements of paragraph 90. Paragraphs AG101AG98–AG108AG105 provide guidance on accounting for taxes paid or payable.

Measurement

Initial Measurement

100.102. **Where an entity (a transfer provider) recognizes an transfer expense without performance obligations at the date it transfers the resources to the transfer recipient, the entity shall measure the expense at the carrying amount of the resources transferred.**

101.103. **Where an entity (a transfer provider) recognizes an transfer expense without performance obligations prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the entity (the transfer provider) will incur in settling the liability. The costs that the entity will incur in settling the liability may include fixed costs, variable costs, or both.**

102.104. When determining the costs that the entity (the transfer provider) will incur in settling the liability, an entity shall consider the effects of all of the following:

(a) Variable costs;

(b) Constraining estimates of variable costs;

(c) Time value of money; and

(d) Non-cash transfers.

Variable Costs

103.105. A transfer expense without performance obligations may include variable costs where, for example, the entity (the transfer provider) has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. An entity's (a transfer provider's) best estimate of the amount it will incur to settle the liability reflects the entity's assessment of the costs that the transfer recipient is likely to incur.

104.106. An entity (a transfer provider) shall estimate an amount of variable costs by using either of the following methods, depending on which method the entity expects to better predict the amount of costs it will incur:

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

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible cost amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable costs if the binding arrangement has only two possible outcomes (for example, a transfer recipient either purchases a new asset or refurbishes an existing asset).

105.107. For the purpose of determining the best estimate of the costs it will incur in settling the liability, an entity (a transfer provider) shall assume that the transfer recipient will carry out the

specified activities as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled or modified.

Constraining Estimates of Variable Consideration

~~106.~~108. Where an entity's (a transfer provider's) best estimate of the amount it will incur to settle the liability includes an element of variable consideration in accordance with paragraph 106~~105~~, that element shall be included in the entity's (the transfer provider's) best estimate only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Time Value of Money

~~107.~~109. An entity (a transfer provider) shall adjust the promised amount of resources to be transferred to the transfer recipient for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer recipient with a significant benefit of financing the activities the transfer provider has agreed to perform. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

~~108.~~110. An entity (a transfer provider) shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including the combined effect of both of the following:

(a) The expected length of time between when the transfer recipient performs the activities it has promised to perform and when the entity (the transfer provider) transfers the promised resources; and

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

~~109.~~111. To meet the objective in paragraph 110~~109~~ when adjusting the promised transfer or resources for a significant financing component, an entity (a transfer provider) shall use the discount rate that would be reflected in a separate financing transaction between the entity and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the transfer recipient, as well as any collateral or security provided by the transfer recipient. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances.

~~110.~~112. An entity shall present the effects of financing (interest expense) separately from transfer expenses without performance obligations in the statement of financial performance. Interest expense is recognized only to the extent that a liability is recognized in accounting for a transfer expense without performance obligations.

~~111.~~113. As a practical expedient, an entity need not adjust the expense and liability for the effects of the time value of money if the entity expects, at the inception of the binding arrangement, that the period between when the entity recognizes a liability and when the entity transfers the resources to settle that liability will be one year or less.

Non-Cash Transfers

~~112.~~114. Where the resources transferred are non-cash assets, an entity (a transfer provider) does not revalue the assets prior to derecognizing those assets.

Debt Forgiveness

~~113.~~115. Where an entity (a transfer provider) forgives debt of a transfer recipient, the expense is measured at the carrying amount of the debt forgiven, in accordance with IPSAS 41.

Subsequent Measurement

~~114.~~116. **The liability for a transfer expense without performance obligations shall be reduced as the entity (the transfer provider) transfers resources ~~are transferred~~ to the transfer recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of the liability in respect of the transfer expense without performance obligations is recognized in surplus or deficit in the period in which the liability is settled.**

~~115.~~117. Where a liability is discounted in accordance with paragraph 109~~108~~, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.

~~116.~~118. Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs that the entity (the transfer provider) will incur in settling the liability.

Subsequent Measurement of Other Statutory Payables~~.~~

~~117.~~119. Where an entity has recognized a payable arising out of the operation of legislation or regulation that does not meet the definition of a transfer expense in paragraph 6, an entity ~~apply~~ applies the principles in paragraphs 116~~115~~–118~~117~~ to the measurement of that payable after initial recognition, except where the payable is within the scope of another Standard, in which case the entity shall apply the measurement requirements in that Standard.

Presentation

Transfer Expenses with Performance Obligations

~~118.~~120. **When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a transfer provider's binding arrangement asset or a transfer provider's binding arrangement liability, depending on the relationship between the transfer recipient's performance and the entity's (the transfer provider's) payment. An entity shall present any unconditional obligations to pay consideration separately as a payable.**

~~119.~~121. If an entity (the transfer provider) pays consideration, or has an obligation to pay an amount of consideration that is unconditional (i.e., a payable), before the transfer recipient transfers a good or service to the third-party beneficiary, the entity (the transfer provider) shall present the binding arrangement as a transfer provider's binding arrangement asset when the payment is made or the payment is due (whichever is earlier). A transfer provider's binding arrangement asset is an entity's (a transfer provider's) right to have the goods or services transferred to a third-party beneficiary for which the transfer recipient has received consideration (or an amount of consideration is due) from

the entity (the transfer provider). An entity shall assess a transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

~~120.~~122. If a transfer recipient performs by transferring goods or services to a third-party beneficiary before the entity (the transfer provider) pays consideration or before payment is due, the entity (the transfer provider) shall present the binding arrangement as a transfer provider's binding arrangement liability, excluding any amounts presented as a payable. A transfer provider's binding arrangement liability is an entity's (a transfer provider's) obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary.

~~121.~~123. A payable is an entity's (a transfer provider's) obligation to pay consideration that is unconditional. An obligation to pay consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity (a transfer provider) would recognize a payable if it has a present obligation to make payment even though that amount may be subject to refund in the future. An entity shall account for a payable in accordance with IPSAS 41~~, *Financial Instruments*~~.

~~122.~~124. This [draft] Standard uses the terms 'transfer provider's binding arrangement asset' and 'transfer provider's 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 transfer provider's binding arrangement liability, the entity shall provide sufficient information for a user of the financial statements to distinguish between payables and transfer provider's binding arrangement liabilities.

Transfer Expenses without Performance Obligations

~~123.~~125. An entity shall present liabilities from transfer expenses without performance obligations separately from other liabilities, either in the statement of financial performance or in the notes. An entity shall identify payables separately from other liabilities arising from transfer expenses without performance obligations.

Disclosure

~~124.~~126. **The objective of the disclosure requirements is for an entity (a transfer provider) to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from transfer expenses. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

(a) **Expenses from transfer expenses (see paragraph 130~~129~~);**

(b) **Binding arrangements for transfer expenses with performance obligations (see paragraphs 131~~130~~–135~~134~~);**

(c) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses with performance obligations (see paragraphs 136~~135~~–139~~138~~);**

(d) **Binding arrangements for transfer expenses without performance obligations (see paragraph 140~~139~~); and**

(e) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses without performance obligations (see paragraph 142~~141~~).**

~~125.~~127. 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.

~~126.~~128. An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

~~127.~~129. In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45 to 47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

Transfer Expenses

~~128.~~130. An entity shall disclose all of the following amounts for the reporting period, unless those amounts are presented in the statement of financial performance separately from its other expenses:

(a) Expenses recognized from binding arrangements for transfer expenses with performance obligations by major classes;

(b) Expenses recognized from binding arrangements for transfer expenses without performance obligations by major classes; and

(c) Expenses recognized from transfer expenses without binding arrangements by major classes.

Transfer Expenses with Performance Obligations

~~129.~~131. An entity shall disclose any impairment losses recognized in accordance with IPSAS 21 on any transfer provider's binding arrangement assets (i.e., rights to have goods or services transferred to a third-party beneficiary), which the entity shall disclose separately from other impairment losses from other binding arrangements.

~~*Disaggregation of Expenses*~~

~~130. An entity shall disaggregate expenses recognized from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG114–AG116 when selecting the categories to use to disaggregate expenses.~~

~~131. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 131) and expense information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.~~

~~*Binding Arrangement Balances*~~

~~132. An entity shall disclose all of the following:~~

~~(a) The opening and closing balances of transfer provider's binding arrangement assets, payables and transfer provider's binding arrangement liabilities from binding arrangements for transfer expenses with performance obligations, if not otherwise separately presented or disclosed;~~

~~(b) Expenses recognized in the reporting period that were included in the transfer provider's binding arrangement asset balance at the beginning of the period; and~~

~~(c) Expenses recognized in the reporting period from performance obligations satisfied (or partially satisfied) by the transfer recipient in previous periods (for example, changes in transaction consideration).~~

~~133. An entity shall explain how the timing of satisfaction of performance obligations by the transfer recipient (see paragraph 136(a)) relates to the typical timing of payment (see paragraph 136(b)) and the effect that those factors have on the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances. The explanation provided may use qualitative information.~~

~~134. An entity shall provide an explanation of the significant changes in the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of transfer provider's binding arrangement assets and transfer provider's binding arrangement liabilities include any of the following:~~

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

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

~~(c) Impairment of a transfer provider's binding arrangement asset;~~

~~(d) A change in the time frame for an obligation to pay consideration to become unconditional (i.e., for a transfer provider's binding arrangement liability to be reclassified to a payable); and~~

~~(e) A change in the time frame for a performance obligation of the transfer recipient to be satisfied (i.e., for the recognition of an expense arising from a transfer provider's binding arrangement asset).~~

Transfer Recipient's Performance Obligations

~~135.~~132. An entity (a transfer provider) shall disclose information about the transfer recipient's performance obligations in its binding arrangements for transfer expenses with performance obligations, including a description of all of the following:

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

(b) The nature of the goods or services that have been or will be transferred to the third-party beneficiary.~~; and~~

~~(c) How the transfer of those goods and services to the third-party beneficiary enables the entity (the transfer provider) to meet its service objectives.~~

Transaction Consideration Allocated to the ~~Resource~~ Transfer Recipient's Remaining Performance Obligations

~~136.~~133. An entity (a transfer provider) shall disclose the following information about a transfer recipient's remaining performance obligations:

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

(b) An explanation of when the entity expects to recognize as an expense the amount disclosed in accordance with paragraph 133(a)~~132(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 resource recipient's remaining performance obligations; or

(ii) By using qualitative information.

~~137.~~ As a practical expedient, an entity (a transfer provider) need not disclose the information in paragraph 133~~132~~ for a transfer recipient's performance obligation if ~~either of the following conditions is met:~~

~~138.~~134. ~~T~~the transfer recipient's performance obligation is part of a binding arrangement that has an original expected duration of one year or less.~~; or~~

~~(a) The entity (the transfer provider) recognizes an expense from the resource recipient's satisfaction of the performance obligation in accordance with paragraph AG50.~~

~~139.~~135. An entity (a transfer provider) shall explain qualitatively whether it is applying the practical expedient in paragraph ~~1~~134~~133~~ and whether any consideration from binding arrangements for transfer expenses with performance obligations is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 133~~132~~. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 55–57).

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses with Performance Obligations

~~140.~~136. An entity (a transfer provider) shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses with performance obligations. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The timing of satisfaction of performance obligations by the transfer recipient (see paragraphs 137~~136~~–138~~137~~); and

(b) The transaction consideration and the amounts allocated to the transfer recipient's performance obligations (see paragraph 139~~138~~).

Determining the Timing of Satisfaction of Performance Obligations by the Transfer Recipient

~~141.~~137. For performance obligations that a transfer recipient satisfies over time, an entity (a transfer provider) shall disclose both of the following:

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

(b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services by the transfer recipient to third-party beneficiaries.

~~142.~~138. For performance obligations satisfied at a point in time, an entity (a transfer provider) shall disclose the significant judgments made in evaluating when a third-party beneficiary obtains control of promised goods or services.

Determining the Transaction Consideration and the Amounts Allocated to the Transfer Recipient's Performance Obligations

~~143.~~139. An entity (a transfer provider) shall disclose information about the methods, inputs and assumptions used for all of the following:

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

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

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

Transfer Expenses without Performance Obligations

~~144.~~140. An entity shall disclose all of the following:

(a) A reconciliation of the opening and closing balances of liabilities from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed;

(b) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken;

(c) The amount of any liabilities forgiven;

(d) Where an entity cannot reliably measure a liability for a transfer expense without performance obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and

(e) The accounting policies adopted for the recognition of transfer expenses without performance obligations.

~~145.~~141. Where an entity has agreed to provide a transfer of resources subject to appropriations being approved, and has not recognized a liability or expense as the appropriation has not yet been

approved, the entity shall consider whether to disclose a contingent liability by applying the requirements of IPSAS 19.

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses without Performance Obligations.

~~146.~~142. An entity shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses without performance obligations. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The determination of whether a promised transfer meets the criteria to be a present obligation; and

(b) The estimation of liabilities that include variable costs.

Practical Expedients

~~147.~~143. If an entity elects to use the practical expedient about the existence of a significant financing component in paragraph 62 (transfer expenses with performance obligations) or paragraph 113~~112~~ (transfer expenses without performance obligations) the entity shall disclose that fact.

Effective Date and Transition

Effective Date

~~148.~~144. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and shall apply [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71)~~, *Revenue without Performance Obligations*~~, at the same time.**

~~149.~~145. 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

~~150.~~146. For the purposes of the transition requirements in paragraphs 147~~146~~–153~~152~~:

(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 for transfer expenses with performance obligations is a binding arrangement for which the third-party beneficiary has received all of the goods or services specified in the binding arrangement.

Transfer Expenses with Performance Obligations

~~151.~~147. An entity shall apply this [draft] Standard to binding arrangements for transfer expenses with performance obligations using one of the following two methods:

(a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 149~~148~~; or

(b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 151~~150~~–153~~152~~.

~~152.~~148. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied to binding arrangements for transfer expenses with performance obligations, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 147(a)~~146(a)~~. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

~~153.~~149. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively to binding arrangements for contributions, in accordance with paragraph 147(a)~~146(a)~~:

(a) For completed binding arrangements for transfer expenses with performance obligations, an entity need not restate binding arrangements that:

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

(ii) Are completed binding arrangements for transfer expenses with performance obligations at the beginning of the earliest period presented.

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

(c) For binding arrangements for transfer expenses with performance obligations that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 21–22. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the transfer recipient's satisfied and unsatisfied performance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the transfer recipient's satisfied and unsatisfied performance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the transfer recipient's remaining performance obligations and an explanation of when the entity expects to recognize that amount as an expense (see paragraph 133~~132~~).

~~154.~~150. For any of the practical expedients in paragraph 149~~148~~ that an entity uses, the entity shall apply that expedient consistently to all binding arrangements for transfer expenses with performance obligations 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.

~~155.~~151. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 147(b)~~146(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 deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this [draft] Standard retrospectively only to binding arrangements for transfer expenses with performance obligations that are not completed binding arrangements for transfer expenses with performance obligations at the date of initial application (for example, January , [Year] for an entity with a December 31 year-end).

~~156.~~152. An entity applying this [draft] Standard retrospectively in accordance with paragraph 147(b)~~146(b)~~ may also use the practical expedient described in paragraph 149(c)~~148(c)~~, either:

(a) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements for transfer expenses with performance obligations and disclose the information required by paragraph 150~~149~~.

~~157.~~153. 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 147(b)~~146(b)~~:

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the entity's previous accounting policies; and

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

Transfer Expenses without Performance Obligations

~~158.~~154. An entity shall apply this [draft] Standard to transfer expenses without performance obligations retrospectively, with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application.

~~159.~~155. An entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit, or other component of net assets/equity, as appropriate, of the annual reporting period that includes the date of initial application. An entity may elect to apply this [draft] Standard retrospectively only to binding

arrangements where one or both parties have yet to perform all their obligations at the date of initial application (for example, January 1, [Year] for an entity with a December 31 year-end).

~~160.~~156. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures:

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the entity's previous accounting policies; and

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

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED xx)

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

(a) Objective (paragraphs AG2–AG4);

(b) Scope (paragraphs AG5–AG6);

(c) Definitions (paragraphs AG7–AG9);

(d) Public Sector Performance Obligation Approach:

(i) Recognition (paragraphs AG26–AG1;

(ii) Measurement (paragraphs AG52–AG88; and

(e) Transfer Expenses without Performance Obligations:

(i) Recognition (paragraphs AG90–AG100~~AG97~~;

(ii) Measurement (paragraphs AG110~~AG107~~–AG114~~AG111~~.; and

~~(f) Disclosures (paragraphs AG1–AG1).~~

Objective (see paragraph 1)

AG2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize expenses as follows:

(a) For transfer expenses where the transfer recipient is required to satisfy performance obligations by transferring goods or services to third-party beneficiary, to depict the transfer of resources in an amount that reflects the consideration which the entity expects to be obligated to pay in exchange for those goods or services; and

(b) For transfer expenses where the transfer recipient is not required to satisfy performance obligations, at the earlier of the date at which the entity has a present obligation to transfer resources to a transfer recipient, and the date when the entity ceases to control the resources (i.e., when it transfers those resources to the beneficiary or resource recipient).

AG3. An entity shall consider the terms of the transfer, 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 transfers with similar characteristics and in similar circumstances.

AG4. This [draft] Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of transfers 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 transfers within that portfolio. Transfers with performance obligations and transfers without performance obligations do not have similar characteristics are ~~are~~ not accounted

for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Scope (see paragraphs 2–4)

AG5. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or asset to another entity without receiving any good, service, or asset in return. The definitions of "*binding arrangement", "performance obligation", "third-party beneficiary", "transfer expense", "transfer provider"* and *"transfer recipient"* in paragraph 6 , or in other Standards as explained in paragraph 7, establish the key elements in applying the scope of the [draft] Standard.

AG6. This [draft] Standard does not address transactions where an entity receives any good, service or asset in return for the good, service or asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (see paragraphs 6–7)

Transfer expense

AG7. This [draft] Standard defines a transfer expense as a transaction in which an entity (the transfer provider) provides a good, service, or asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, an individual or another entity) without receiving any good, service, or asset in return. For the purposes of determining whether the transfer provider has received a good, service or another asset, a transfer provider's binding arrangement asset is not considered to be another asset received by the transfer provider. This is because a transfer provider's binding arrangement asset is the right to have a good, service or asset transferred to a third-party beneficiary. This is a temporary asset that will be derecognized as the transfer recipient fulfills its performance obligations.

~~AG7.~~AG8. In a transfer expense, the transfer provider does not receive any good, service or asset in return. Consequently, agent/principal arrangements and arrangements where the transfer provider gains control of the transfer recipient's output are outside the scope of this [draft] Standard, as in these transactions the transfer provider receives goods, services or assets.

Transfer recipient

~~AG8.~~AG9. A transfer recipient is defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organization, an individual or another entity) that receives a good, service, or asset from another entity (the transfer provider) without providing any good, service, or asset to that entity. While the transfer recipient does not provide any good, service or other asset to the transfer provider, it may provide a good, service or asset to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the transfer provider.

Binding Arrangement

~~AG9.~~AG10. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. The [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers enforceable rights and obligations on all the parties to the arrangement.

In the public sector an arrangement is enforceable when the entity (the transfer provider) and the transfer recipient are able to enforce the rights and obligations through legal or equivalent means.

~~AG10.~~AG11. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as equivalent means).

~~AG11.~~AG12. For an arrangement to be enforceable through 'equivalent means', the presence of a mechanism outside the legal systems that establishes the right of the entity (the transfer provider) to oblige the transfer recipient to satisfy the agreed obligations or be subject to consequences is required. Similarly, the presence of a mechanism outside the legal systems that establishes the right of the transfer recipient to oblige the entity (the transfer provider) to pay the agreed consideration is required.

~~AG12.~~AG13. An entity considers the substance rather than the legal form of an arrangement in determining whether it is enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both the entity (the transfer provider) and the transfer recipient; and

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

~~AG13.~~AG14. 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.

~~AG14.~~AG15. To be considered a binding arrangement for the purposes this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG16–AG24).

Enforceability

~~AG15.~~AG16. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the entity receiving the consideration (the transfer recipient).

~~AG16.~~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.

~~AG17.~~AG18. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to transfer the promised goods or services to a

third-party beneficiary, or directing an entity (a transfer provider) to transfer the promised consideration.

~~AG18.~~AG19. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of 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.

~~AG19.~~AG20. Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to transfer goods or services to third-party beneficiaries may be enforceable. Similarly, a directive given by a minister or government department to an entity (a transfer provider) controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

~~AG20.~~AG21. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other entity (the transfer provider). In general, the entity's (the transfer provider's) ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the entity (the transfer provider) to provide such funding. However, if the transfer recipient was presently entitled to funding in the future (through another binding arrangement) then this could be considered a valid enforcement mechanism.

~~AG21.~~AG22. When determining if a reduction of future funding would be an enforcement mechanism, the entity (the transfer provider) shall apply a judgment based on the facts and circumstances.

~~AG22.~~AG23. For the purposes of this [draft] Standard, transfer expenses with performance obligations involve three-party arrangements–transfer provider (the reporting entity in this [draft] Standard), transfer recipient and third-party beneficiaries. It is important to recognize that in these three-party arrangements the third-party beneficiaries do not have any rights to force the transfer recipient to deliver goods and services because they are not a party to the binding arrangement. However, for these three-party arrangements to be considered transfer expenses with performance obligations, the entity (the transfer provider) must have the ability to force the transfer recipient to deliver goods and services to third-party beneficiaries. In these three-party arrangements the transfer recipient is not an agent of the entity (the transfer provider) because the transfer recipient gains control of the consideration from the entity (the transfer provider) and is responsible for providing goods or services to the third-party beneficiaries.

~~AG23.~~AG24. A statement of intent or public announcement by an entity (a transfer provider) such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity (a transfer provider) and a transfer recipient under which both parties have rights and obligations. An entity

considers whether such a public announcement gives rise to a constructive obligation in accordance with IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

Public Sector Performance Obligation Approach (see paragraphs 9–88)

~~AG24.~~AG25. The public sector performance obligation approach used in this [draft] Standard applies the principles in [draft] IPSAS X (ED 70) to transfer expenses with performance obligations. The guidance in this [draft] Standard has been developed taking into account the information that is expected to be available to a transfer provider. An example of the information that a transfer provider is not expected to have access to is the number of billable hours a transfer recipient has undertaken but not yet invoiced the transfer provider. However, where a transfer provider has access to such additional information, it may apply the guidance in [draft] IPSAS X (ED 70) for which there is no equivalent guidance in this [draft] Standard in accounting for transfer expenses with performance obligations, provided such guidance does not conflict with the requirements of this [draft] Standard and that the entity makes any related disclosure required by [draft] IPSAS [X] (ED 70).

Recognition (see paragraphs 10–45

Identifying the Binding Arrangement (Step 1) (see paragraphs 10–22)

~~AG25.~~AG26. The criteria an entity considers in determining when to account for a transfer expense with performance obligations are similar to those an entity would consider in determining when to account for revenue in accordance with [draft] IPSAS [X] (ED 70). However, in determining when to account for a transfer expense with performance obligations, an entity does not need to consider whether the binding arrangement has economic substance. A transfer expense is the transfer of a good, service or other asset without receiving a good, service or asset in return, and consequently all transfer expenses have economic substance.

Identifying Performance Obligations (Step 2) (see paragraphs 23–31)

~~AG26.~~AG27. This [draft] Standard requires transfer expenses with performance obligations to be recognized as or when a performance obligation is fulfilled by a transfer recipient.

~~AG27.~~AG28. Paragraph 23 requires an entity (the transfer provider) to identify any performance obligations when a binding arrangement is entered into (Step 2 of the recognition model). A performance obligation is a promise by the transfer recipient in a binding arrangement with a transfer provider to transfer to third-party beneficiaries either:

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

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

~~AG28.~~AG29. The key features of this definition of a performance obligation are that goods and services must be distinct and there must be a transfer of these goods and services to a third-party beneficiary. If goods or services (or a bundle of goods or services) are not transferred and/or are not distinct, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 89–119~~118~~).

~~AG29.~~AG30. In the public sector, identifying performance obligations may require significant judgment. A necessary condition for identifying a performance obligation is that the promise must be distinct

to be able to determine when that performance obligation is fulfilled by the transfer recipient. In identifying performance obligations which are distinct 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.

~~AG30.~~AG31. The existence of performance indicators in relation to the delivery of goods and services does not necessarily indicate the existence of a performance obligation as defined in [draft] IPSAS [X] (ED 70). A performance obligation is a promise by a transfer recipient within a binding arrangement to transfer goods or services or a bundle of goods or services to a third-party beneficiary based on the terms and conditions agreed between two parties (the transfer provider and the transfer recipient).

~~AG31.~~AG32. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Goods and Services

~~AG32.~~AG33. A good or service promised by a transfer recipient in a binding arrangement is distinct if the following two criteria are both met (see paragraph 28):

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

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

~~AG33.~~AG34. When identifying a performance obligation, not only does the promised transfer of the goods and services by the transfer recipient in a promise need to be separately identifiable but the promises in a binding arrangement must also be distinct from other promises in the same binding arrangement to allow for the transfer provider to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.

Transfer of Goods and Services

~~AG34.~~AG35. The second requirement of a performance obligation is that there must be a transfer of goods and services to the third-party beneficiary. If there is no requirement to transfer control of goods or services, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 89–~~119~~118).

~~AG35.~~AG36. This [draft] Standard requires that transfer expenses are recognized when a transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary. The transfer of the good or service is indicated when the third-party beneficiary

gains control of the promised goods or services. A transfer provider can receive the economic benefits or service potential from the good or service transferred to a third-party beneficiary where the transfer of the good or service to the third-party beneficiary contributes to the transfer provider achieving its service objectives.

~~AG36.~~AG37. Paragraph 34 provides indicators of control which include:

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

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

Step 5: Satisfaction of Performance Obligations (see paragraphs 32–45)

Performance Obligations Satisfied Over Time (see paragraph 35)

~~AG37.~~AG38. Paragraph 35 provides that a performance obligation is satisfied over time if one of the following criteria is met:

(a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG39–AG40);

(b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that a third-party beneficiary controls as the asset is created or enhanced (see paragraph AG41); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG42–AG44) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG1–AG48).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Entity's Performance (see paragraph 35(a))

~~AG38.~~AG39. For some types of performance obligations, the assessment of whether a third-party beneficiary receives the economic benefit or service potential of a~~n~~ transfer recipient's performance as the transfer recipient 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 third-party beneficiary of the economic benefits or service potential of the transfer recipient's performance can be readily identified.

~~AG39.~~AG40. For other types of performance obligations, an entity may not be able to readily identify whether a third-party beneficiary simultaneously receives and consumes the economic benefits or service potential from the transfer recipient's performance as the transfer recipient performs. In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity (i.e., another supplier) would not need to substantially re-perform the work that the transfer recipient has completed to date if that other entity were to fulfill the remaining performance obligation to the transfer provider. In determining whether another entity would not need to substantially re-perform the work the 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 transfer recipient from transferring the remaining performance obligation to another entity; and

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

Third-Party Beneficiary Controls the Asset as it is Created or Enhanced

~~AG40.~~AG41. In determining whether a third-party beneficiary controls an asset as it is created or enhanced by the transfer recipient in accordance with paragraph 35(b), an entity shall apply the requirements for control in paragraphs 32–34 and 38. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Transfer Recipient's Performance does not Create an Asset with an Alternative Use (see paragraph 35(c))

~~AG41.~~AG42. In assessing whether an asset has an alternative use to a transfer recipient in accordance with paragraphs 35(c) and 36, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the transfer recipient's ability to readily direct that asset for another use, such as providing it to a different purchaser. The possibility of the binding arrangement with the entity (the transfer provider) being terminated is not a relevant consideration in assessing whether the transfer recipient would be able to readily direct the asset for another use.

~~AG42.~~AG43. A restriction in the binding arrangement on a transfer recipient's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the transfer recipient. A restriction in the binding arrangement is substantive if the entity (the transfer provider) could enforce its rights to the promised asset if the transfer recipient sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the transfer recipient could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

~~AG43.~~AG44. A practical limitation on a transfer recipient's ability to direct an asset for another use exists if a transfer recipient would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the transfer recipient either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, a transfer recipient may be practically limited from redirecting assets that either have design specifications that are unique to a transfer provider or are located in remote areas.

Right to Payment for Performance Completed to Date (see paragraph 35(c))

~~AG44. In accordance with paragraphs 35(c) and 37, a transfer recipient has a right to payment for performance completed to date if the transfer recipient would be entitled to an amount that at least compensates it for its performance completed to date in the event that the entity (the transfer provider) or another party terminates the binding arrangement for reasons other than the transfer recipient's failure to perform as promised. An amount that would compensate a transfer recipient for performance completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by a transfer~~

~~recipient in satisfying the performance obligation plus a reasonable margin) rather than compensation for only the transfer recipient's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled as promised, but a transfer recipient 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 transfer recipient's performance under the binding arrangement before termination by the entity (the transfer provider) or another party; or~~

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

~~A transfer provider may have insufficient information to assess whether amounts payable to the transfer recipient for its performance completed to date would provide a reasonable margin for the transfer recipient. Consequently, there is a rebuttable presumption that where the transfer recipient has an enforceable right to payment for performance completed to date, this is sufficient to provide a reasonable margin for the transfer recipient. This presumption may only be rebutted where the transfer provider has evidence that the payment is insufficient to provide a reasonable margin for the transfer recipient.~~

AG45. A transfer recipient's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether a transfer recipient has a right to payment for performance completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to perform as promised.

AG46. In some binding arrangements, an entity (a transfer provider) may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the entity might not have any right to terminate the binding arrangement. If an entity (a transfer provider) acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the entity (the transfer provider) fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to transfer to the third-party beneficiary the goods or services promised in the binding arrangement and require the entity (the transfer provider) to pay the consideration promised in exchange for those goods or services. In those circumstances, a transfer recipient has a right to payment for performance completed to date because the transfer recipient has a right to continue to perform its obligations in accordance with the binding arrangement and to require the entity (the transfer provider) to perform its obligations (which include paying the promised consideration).

AG47. 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.

AG48. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity (the transfer provider), the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the entity (the transfer provider) is refundable for reasons other than the transfer recipient failing to perform as promised in the binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (see paragraphs 35–37)

AG49. Methods that can be used to measure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG50–AG51); and

(b) Input methods ~~(see paragraphs AG52–AG54)~~.

Output Methods

AG50. Output methods recognize expenses on the basis of direct measurements of the value to the entity (the transfer provider) of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. Output methods are generally appropriate for recognizing expenses. When an entity evaluates whether to apply an output method to measure a transfer recipient's progress, the entity shall consider whether the output selected would faithfully depict the transfer recipient's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the transfer recipient's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the third-party beneficiary. For example, output methods based on units produced or units delivered would not faithfully depict a transfer recipient's performance in satisfying a performance obligation if, at the end of the reporting period, the transfer recipient's performance has produced work in progress or finished goods controlled by the third-party beneficiary that are not included in the measurement of the output.

~~AG51. As a practical expedient, if a transfer recipient has a right to consideration from an entity (a transfer provider) in an amount that corresponds directly with the value to the entity (the transfer provider)~~

~~of the transfer recipient's performance completed to date (for example, a binding arrangement to render or provide a service in which a transfer recipient bills a fixed amount for each hour of service provided), the entity (the transfer provider) may recognize an expense in the amount to which the transfer recipient has a right to invoice, and where such information is available to the entity (the transfer provider), either from the transfer recipient itself or via other means.~~

~~AG52.~~AG51. 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.

~~Input Methods~~

~~AG53. In many cases, information about a transfer recipient's inputs will not be available to the entity (the transfer provider), and an output method may be necessary. The following paragraphs provide guidance on the use of input methods where such information is available to an entity (a transfer provider).~~

~~AG54. Input methods recognize expenses on the basis of the transfer recipient'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 transfer recipient's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity (the transfer provider) to recognize expenses on a straight-line basis.~~

~~AG55. A shortcoming of input methods is that there may not be a direct relationship between a transfer recipient's inputs and the transfer of control of goods or services to a third-party beneficiary. 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 39, do not depict the transfer recipient's performance in transferring control of goods or services to the third-party beneficiary. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required when a cost incurred does not contribute to a transfer recipient's progress in satisfying the performance obligation. For example, an entity (the transfer provider) would not recognize an expense on the basis of costs incurred by the transfer recipient that are attributable to significant inefficiencies in the transfer recipient'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).~~

Measurement (see paragraphs 46–84)

Step 3: Determining the Transaction Consideration (see paragraphs 47–70)

Determining the Transaction Consideration where Components of the Binding Arrangement do not Relate to the Transfer Recipient's Performance Obligations

~~AG56.~~AG52. In the public sector, an entity (a transfer provider) may enter into a binding arrangement with a transfer recipient with a dual purpose of obtaining goods or services to be transferred to a third-party beneficiary and to help the entity (the transfer provider) achieve its objectives. An entity (a transfer provider) shall allocate the transaction consideration to each of the transfer recipient's performance obligations in the binding arrangement so that the allocation depicts the amount of consideration to which the entity (the transfer provider) expects to be obligated to pay in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary.

This is based on the presumption that all of the consideration is wholly related to the transfer of goods or services to the third-party beneficiary (i.e., that all of the consideration is transaction consideration).

~~AG57.~~AG53. This presumption is rebutted when the terms of the binding arrangement specify that only a portion of the consideration is to be returned to the entity (the transfer provider) in the event the transfer recipient does not deliver the promised goods or services to the third-party beneficiary. Where the presumption is rebutted, the entity shall disaggregate the consideration and shall include the component that relates to the transfer of promised goods or services to the third-party beneficiary in the transition consideration in accordance with paragraphs 47–70. The remainder of the consideration (i.e., the amount that does not relates to the transfer of promised goods or services to the third-party beneficiary) shall be accounted for as a transfer expense without performance obligations in accordance with paragraphs 89–119~~118~~. The existence of a component of the consideration that does not relates to the transfer of promised goods or services to the third-party beneficiary will often, but not always, be made explicit in the binding arrangement.

Step 4: Allocating the Transaction ~~Price~~ Consideration to Performance Obligations (see paragraphs 71–84)

Warranties

~~AG58.~~AG54. It is common for a transfer recipient to provide (in accordance with the binding arrangement, the law or the transfer recipient's customary practices) a warranty in connection with the provision of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a transfer provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

~~AG59.~~AG55. If a transfer provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the transfer recipient promises to provide the service to the third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity (a transfer provider) shall account for the promised warranty as a transfer recipient's performance obligation in accordance with paragraphs 23–31 and allocate a portion of the transaction consideration to that transfer recipient's performance obligation in accordance with paragraphs 71–84.

~~AG60.~~AG56. In assessing whether a warranty provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity (a transfer provider) shall consider factors such as:

(a) Whether the warranty is required by law—if the transfer recipient is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a transfer recipient's performance obligation because such requirements typically exist to protect transfer providers and third-party beneficiaries from the risk of purchasing defective products.

(b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a transfer recipient's performance obligation because it is

more likely to provide a service to the third-party beneficiary in addition to the assurance that the product complies with agreed-upon specifications.

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

~~AG61.~~AG57. If a warranty, or a part of a warranty, provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a transfer recipient's performance obligation. Therefore, an entity (a transfer provider) shall allocate the transaction consideration to the product and the service. If a transfer provider is promised both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity (the transfer provider) shall account for both of the warranties together as a transfer recipient's single performance obligation.

Options for Additional Goods or Services

~~AG62.~~AG58. Options for an entity (a transfer provider) to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, award credits (or points), renewal options in a binding arrangement for transfer expenses with performance obligations or other discounts on future goods or services.

~~AG63.~~AG59. If, in a binding arrangement for transfer expenses with performance obligations, a transfer recipient grants an entity (a transfer provider) the option to purchase additional goods or services to be transferred to third-party beneficiaries, that option gives rise to a transfer recipient's performance obligation in the binding arrangement only if the option provides a material right to the entity (the transfer provider) that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of transfer provider in that geographical area or market). If the option provides a material right to the entity (the transfer provider), the entity in effect pays the transfer recipient in advance for future goods or services to be transferred to third-party beneficiaries and the entity (the transfer provider) recognizes an expense when those future goods or services are transferred or when the option expires.

~~AG64.~~AG60. If an entity (a transfer provider) has the option to acquire an additional good or service at a price that would reflect the stand-alone purchase price for that good or service, that option does not provide the entity (the transfer provider) with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity (the transfer provider) shall recognize an~~d~~ expense for the additional goods or services in accordance with this [draft] Standard only when it exercises the option to purchase the additional goods or services.

~~AG65.~~AG61. Paragraph 72 requires an entity to allocate the transaction consideration to a transfer recipient's performance obligations on a relative stand-alone purchase price basis. If the stand-alone purchase price for an entity's (a transfer provider's) option to purchase additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the entity (the transfer provider) would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the entity (the transfer provider) could receive without exercising the option; and

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

~~AG66.~~AG62. If an entity (a transfer provider) has a material right to purchase future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone purchase price of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Purchasers' Unexercised Rights

~~AG67.~~AG63. In accordance with paragraph 121~~120~~, where an entity (a transfer provider) makes a payment to a transfer recipient prior to the promised goods and services being transferred to the third-party beneficiary, the entity (the transfer provider) shall recognize a transfer provider's binding arrangement asset in the amount of the prepayment for the transfer recipient's performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity (a transfer provider) shall derecognize that transfer provider's binding arrangement asset (and recognize an expense) when the transfer recipient transfers those goods or services to the third-party beneficiary and, therefore, satisfies its performance obligation.

~~AG68.~~AG64. An entity's (a transfer provider's) non-refundable prepayment to a transfer recipient gives the entity (the transfer provider) a right to have a good or service transferred to a third-party beneficiary in the future (and obliges the transfer recipient to stand ready to transfer a good or service). However, an entity (a transfer provider) may not exercise all of its rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

~~AG69.~~AG65. An entity (a transfer provider) shall not derecognize a transfer provider's binding arrangement asset as a result of breakage until it is no longer entitled to exercise all of its rights. If an entity (a transfer provider) expects breakage to occur, it shall assess the transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Non-refundable Upfront Fees (and some Related Costs)

~~AG70.~~AG66. In some binding arrangements, a transfer recipient charges an entity (a transfer provider) a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

~~AG71.~~AG67. To identify the transfer recipient's performance obligations in such binding arrangements, an entity (a transfer provider) shall assess whether the fee relates to the transfer of a promised good or service to a third-party beneficiary. In many cases, even though a non-refundable upfront fee relates to an activity that the transfer recipient is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the third-party beneficiary (see paragraph 26). Instead, the upfront fee is an advance payment for future goods or services to be provided to third-party beneficiaries and, therefore, would be recognized as an expense when those future goods or

services are provided to the third-party beneficiaries. The expense recognition period would extend beyond the initial period of the binding arrangement if the transfer recipient grants the entity (the transfer provider) the option to renew the binding arrangement and that option provides the entity (the transfer provider) with a material right as described in paragraph AG59.

~~AG72.~~AG68. If the non-refundable upfront fee relates to a good or service transferred to a third-party beneficiary, the entity (the transfer provider) shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 23–31.

Other Specific Application Issues

Licensing

~~AG73.~~AG69. A license establishes a third-party beneficiary's rights to the intellectual property of a transfer recipient. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

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

(c) Franchises; and

(d) Patents, trademarks and copyrights.

~~AG74.~~AG70. In addition to a promise to grant a license (or licenses) to a third-party beneficiary, a transfer recipient may also promise to transfer other goods or services to the third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by a transfer recipient's customary practices, published policies or specific statements (see paragraph 25). As with other types of binding arrangements, when a binding arrangement with a transfer recipient includes a promise by the transfer recipient to grant a license (or licenses) in addition to other promised goods or services, an entity (the transfer provider) applies paragraphs 23–31 to identify each of the transfer recipient's performance obligations in the binding arrangement.

~~AG75.~~AG71. If the transfer recipient's promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 27–31, an entity (the transfer provider) shall account for the transfer recipient's promise to grant a license to a third-party beneficiary and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

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

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

~~AG76.~~AG72. If the license is not distinct, an entity (the transfer provider) shall apply paragraphs 32–38 to determine whether the transfer recipient's performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

~~AG77.~~AG73. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the transfer recipient's promise to grant the license is a separate performance obligation, an entity (the transfer provider) shall determine whether the license transfers to a third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the transfer recipient's promise in granting the license to a third-party beneficiary is to provide the third-party beneficiary with either:

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

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

Determining the Nature of the Transfer Recipient's Promise

~~AG78.~~AG74. The nature of a transfer recipient's promise in granting a license is a promise to provide a right to access the transfer recipient's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the entity (the transfer provider) reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the third-party beneficiary has rights (see paragraphs AG75 and AG76);

(b) The rights granted by the license directly expose the third-party beneficiary to any positive or negative effects of the transfer recipient's activities identified in paragraph AG74(a); and

(c) Those activities do not result in the transfer by the transfer recipient of a good or a service to the third-party beneficiary as those activities occur (see paragraph 26).

~~AG79.~~AG75. Factors that may indicate that an entity (a transfer provider) could reasonably expect that a transfer recipient will undertake activities that significantly affect the intellectual property include the transfer recipient's customary practices, published policies or specific statements.

~~AG80.~~AG76. A transfer recipient's activities significantly affect the intellectual property to which the third-party beneficiary has rights when either:

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

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

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

~~AG81.~~AG77. If the criteria in paragraph AG74 are met, an entity (a transfer provider) shall account for the transfer recipient's promise to grant a license to a third-party beneficiary as a performance obligation satisfied over time because the third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the transfer recipient's performance of providing access to its intellectual property as the performance occurs (see paragraph 35(a)). An entity shall apply paragraphs 39–45 to select an appropriate method to measure the transfer recipient's progress towards complete satisfaction of that performance obligation to provide access.

~~AG82.~~AG78. If the criteria in paragraph AG74 are not met, the nature of a transfer recipient's promise is to provide a right to use the transfer recipient's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the third-party beneficiary. This means that the third-party beneficiary can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity (a transfer provider) shall account for the transfer recipient's promise to provide a right to use the transfer recipient's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the license transfers to the third-party beneficiary. However, an expense cannot be recognized for a license that provides a right to use the transfer recipient's intellectual property before the beginning of the period during which the third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before a transfer recipient provides (or otherwise makes available) to the third-party beneficiary a code that enables the third-party beneficiary to immediately use the software, the entity would not recognize an expense before that code has been provided (or otherwise made available).

~~AG83.~~AG79. An entity (a transfer provider) shall disregard the following factors when determining whether a license provides a right to access the transfer recipient's intellectual property or a right to use the transfer recipient's intellectual property:

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

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

Usage-Based Royalties

~~AG84.~~AG80. Notwithstanding the requirements in paragraphs 55–58, an entity shall recognize an expense for a usage-based royalty promised in exchange for a license of intellectual property transferred to a third-party beneficiary only when (or as) the later of the following events occurs:

(a) The subsequent usage occurs; and

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

~~AG85.~~AG81. The requirement for a usage-based royalty in paragraph AG80 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity (the transfer provider) would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

~~AG86.~~AG82. When the requirement in paragraph AG81 is met, an expense for a usage-based royalty shall be recognized wholly in accordance with paragraph AG80. When the requirement in paragraph AG81 is not met, the requirements on variable consideration in paragraphs 50–58 apply to the sales-based or usage-based royalty.

Bill-and-Hold Arrangements

~~AG87.~~AG83. A bill-and-hold arrangement is a binding arrangement under which a transfer recipient bills an entity (a transfer provider) for a product, but the transfer recipient retains physical possession of the product until it is transferred to the third-party beneficiary at a point in time in the future.

~~AG88.~~AG84. An entity (a transfer provider) shall determine when the transfer recipient has satisfied its performance obligation to transfer a product to a third-party beneficiary by evaluating when the third-party beneficiary obtains control of that product (see paragraph 38). For some binding arrangements, control is transferred either when the product is delivered to the third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a third-party beneficiary may obtain control of a product even though that product remains in the transfer recipient's physical possession. In that case, the third-party beneficiary has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the transfer recipient does not control the product. Instead, the transfer recipient provides custodial services to the third-part beneficiary over the third-party beneficiary's asset.

~~AG89.~~AG85. In addition to applying the requirements in paragraph 38, for a third-party beneficiary to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

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

(b) The product must be identified separately as belonging to the third-party beneficiary;

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

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

~~AG90.~~AG86. If an entity (a transfer provider) recognizes an expense for the purchase of a product on a bill-and-hold basis, the entity shall consider whether the transfer recipient has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 23–31 to which the entity shall allocate a portion of the transaction ~~price~~ consideration in accordance with paragraphs 71–84.

Third-Party Beneficiary Acceptance

~~AG91.~~AG87. In accordance with paragraph 38(e), a third-party beneficiary's acceptance of an asset may indicate that the third-party beneficiary has obtained control of the asset. Third-party beneficiary acceptance clauses may allow the entity (the transfer provider) to cancel a binding arrangement or require a transfer recipient to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the third-party beneficiary obtains control of a good or service.

~~AG92.~~AG88. If a transfer recipient delivers products to a third-party beneficiary for trial or evaluation purposes and the entity (the transfer provider) is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the third-party beneficiary until either the third-party beneficiary accepts the product or the trial period lapses.

Transfer Expenses without Performance Obligations (see paragraphs 89–~~118~~119~~118~~)

~~AG93.~~AG89. This [draft] Standard applies the principles in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* to transfer expenses without performance obligations. Where the transfer recipient of a transfer expense without performance obligations is a public sector entity, the transfer recipient will account for the revenue in accordance with [draft] IPSAS X (ED 71). Transfer expenses without performance obligations may arise from binding arrangements that impose requirements to undertake enforceable activities and/or requirements to incur eligible expenditure (as defined in [draft] IPSAS X (ED 71)) but not performance obligations on the transfer recipient. Alternatively, transfer expenses without performance obligations may arise where the entity (the transfer provider) transfers resources ~~outside of a~~where there is no binding arrangement.

Recognition (see paragraphs 90–~~99~~100~~99~~)

~~AG94.~~AG90. In accordance with paragraph 90, an entity (a transfer provider) shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) When the entity (the transfer provider) has a present obligation to transfer resources to a transfer recipient; and

(b) When the entity (the transfer provider) ceases to control the resources it has agreed to transfer.

~~AG95.~~AG91. The point at which an entity (a transfer provider) has a present obligation to transfer resources to a transfer recipient will depend upon the terms of the binding arrangement and the circumstances of the transfer expense. For example, an entity (a transfer provider) may enter into a binding arrangement with a university (a transfer recipient), whereby the university undertakes a research project over several years. At the end of the project, the university retains the intellectual property generated by the research project; the binding arrangement is therefore a binding arrangement for a transfer expense without performance obligations, ~~and~~ as no goods or services are transferred to a third-party beneficiary~~, n~~or to the entity (the transfer provider). Depending on the terms of the binding arrangement, the entity (the transfer provider) may have a present obligation to transfer the promised resources:

(a) At the commencement of the research project;

(b) Periodically (i.e., at set dates) throughout the research project;

(c) As key project milestones are achieved; or

(d) At the completion of the research project.

~~AG96.~~AG92. In determining the point or points at which an entity (a transfer provider) may have a present obligation to transfer the promised resources, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence; and shall consider whether the promised resources are subject to appropriations (see paragraphs AG96–AG100~~AG97~~).

AG93. Subject to the requirements of paragraph AG94, ~~W~~where an entity (a transfer provider) ~~makes a prepayment (i.e., the entity~~ transfers the promised resources before having a present obligation to do so~~)~~, the entity shall not recognize an asset, but shall recognize an expense in accordance with paragraph 90(b). The entity (the transfer provider) does not recognize an asset as it does not have an enforceable right to the return of the resources. The binding arrangement may require the transfer recipient to return the resources to the entity (the transfer provider) in the event of non-compliance with the terms of the binding arrangement. However, until such time as there is a breach of the terms of the binding arrangement, there are no resources that are presently controlled by the entity (the transfer provider). Consequently, the entity (the transfer provider) does not have an asset at the point it transfers the resources, and hence it recognizes an expense.

~~AG97.~~AG94. An entity (a transfer provider) usually ceases to control the resources it has agreed to transfer at the point it transfers those resources to the transfer recipient. However, in some circumstances, an entity (a transfer provider) may retain control of the resources until a later date. For example, an entity (a transfer provider) may make a prepayment, but be entitled to a refund of the prepayment on demand prior to the point at which the entity (the transfer provider) has a present obligation to make the payment. In such circumstances, the entity (the transfer provider) retains control of the resources. Consequently, the entity (the transfer provider) does not derecognize the resources, nor recognize an expense, prior to the point at which it has a present obligation to transfer those resources. Where cash has been transferred, the entity (the transfer provider) may reclassify the asset as a prepayment.

~~AG98.~~AG95. Where the binding arrangement requires the transfer recipient to return the resources to the entity (the transfer provider) in the event of non-compliance with the terms of the binding arrangement, and such a breach of the terms occurs, the entity (the transfer provider) shall recognize an asset and an adjustment to ~~transfer~~ expense~~s~~ to the extent that it has an enforceable right to have the resources returned, and that the return of the resources is probable.

~~*Capital Grants*~~

~~AG99. [Placeholder in case the IPSASB wishes to include alternative requirements for capital grants]~~

Transfer Expenses without Performance Obligations Subject to Appropriations

AG96. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being approved.

AG97. In accordance with paragraphs 97–98, an entity (the transfer provider) considers substance over form in ~~considering~~determining the effect of such a limitation. In some jurisdictions, an entity (a

transfer provider) may be prohibited from transferring the promised resources unless and until the legislature or similar authority has authorized the appropriation. In such circumstance, an entity (the transfer provider) considers that the limitation (that the future transfer is subject to the appropriation being approved) has substance. In other jurisdictions, an entity (a transfer provider) may be not be prohibited from transferring the promised resources, and may have a legal obligation to transfer the resources as a result of the binding arrangement. In such circumstances, the term of the binding arrangement that states that the future transfer is subject to the appropriation being approved has the form of a limitation, but not the substance.

AG98. In some jurisdictions, the appropriation process may have more than one stage. A limitation has substance if, at any point in the process, the entity is prohibited from transferring the promised resources until approval is given. Authorization of the appropriation occurs, in substance, at the point at which an entity (the transfer provider) is no longer prohibited from transferring the promised resources.

~~AG100.~~AG99. ~~In such circumstances~~Where a future transfer is subject, in substance to the appropriation being approved, an entity (the transfer provider) shall not recognize a liability for the transfer expense without performance obligations prior to the appropriation being approved. Until the appropriation is approved, the binding arrangement is not enforceable, as until this point, there is no legal obligation. A constructive obligation, as defined in IPSAS 19, does not arise as

(a) The transfer recipient will not have a valid expectation that a transfer will be made ahead of the appropriation being made; and

(b) The entity (the transfer recipient) or the legislative body can avoid the transfer by not approving the appropriation.

~~AG101.~~AG100. Transfer expenses without performance obligations may be made as a series of transfers. Where these are subject, in substance, to annual appropriations, approval of an appropriation will give rise to a liability for the current year's transfer only, subject to the recognition criteria having been met. No liability for transfers beyond the current year arises because these will be subject to further appropriations.

Taxes

~~AG102.~~AG101. Taxes are defined in [draft] IPSAS [X] (ED 71)~~, *Revenue without Performance Obligations*~~:

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

In some jurisdictions, taxes may be referred to by other terms, for example, levies.

~~AG103.~~AG102. In accordance with paragraph 101, taxes paid and payable by an entity (the transfer provider) are transfer expenses without performance obligations. An entity shall account for the income taxes paid or payable in accordance with the international or national accounting standard dealing with income taxes. An entity shall account for payroll taxes (taxes associated with employee benefits) in accordance with IPSAS 39, *Employee Benefits*. An entity shall account for all other taxes paid or payable in accordance with paragraphs AG103~~AG100~~–AG108~~AG105~~. However, an entity is not required to account for liabilities that arise from emissions trading schemes in accordance with paragraphs AG103~~AG100~~–AG108~~AG105~~.

~~AG104.~~AG103. The obligating event (the past event) that gives rise to a liability to pay a tax is the activity that triggers the payment of the tax, as identified by the legislation. For example, if the activity that triggers the payment of the tax is the generation of revenue in the current period and the calculation of that tax is based on the revenue that was generated in a previous period, the obligating event for that tax is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

~~AG105.~~AG104. An entity does not have a constructive obligation to pay a tax that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

~~AG106.~~AG105. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a tax that will be triggered by operating in a future period.

~~AG107.~~AG106. The liability to pay a tax is recognized progressively if the obligating event occurs over a period of time (i.e., if the activity that triggers the payment of the tax, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognized as the entity generates that revenue.

~~AG108.~~AG107. If an obligation to pay a tax is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs AG103~~AG100~~–AG108~~AG105~~ of this Interpretation (in particular, paragraphs AG103~~AG100~~ and AG106~~AG103~~). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognized when that minimum activity threshold is reached.

~~AG109.~~AG108. An entity shall recognize an asset if it has prepaid a tax but does not yet have a present obligation to pay that tax.

Fines

~~AG110.~~AG109. Fines are defined in IPSAS [X] (ED 71) as economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations. The past event for the recognition of a transfer expense without performance obligations in respect of a fine is the imposition of the fine by a court or other law enforcement body.

Measurement (see paragraphs 102~~101~~–119~~118~~)

~~AG111.~~AG110. In accordance with paragraph 102~~101~~, where an entity (a transfer provider) recognizes an ~~transfer~~ expense ~~without performance obligations~~ at the date it transfers the resources to the transfer recipient, the entity shall measure the expense at the carrying amount of the resources transferred. In many cases, the resource transferred will be cash, and the expense will be measured at the amount of the cash transferred. Where the resource transferred is a non-cash asset, the expense will be measured at the carrying amount of the asset transferred. in accordance with paragraph 114~~113~~, the entity (the transfer provider) does not revalue the assets prior to derecognizing them. For example, if an entity (a transfer provider) transfers inventory to a transfer recipient, it measures the expense at the carrying amount of the inventory transferred, not the fair value of the inventory.

~~AG112.~~AG111. In accordance with paragraph 103~~102~~, where an entity (a transfer provider) recognizes an ~~transfer~~ expense ~~without performance obligations~~ prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the entity (the transfer provider) will incur in settling the liability. Where the resources to be transferred to the transfer recipient, for example where the entity (the transfer provider) has a present obligation to transfer a fixed amount of cash, or a specific non-financial asset, the liability will be measured at the carrying amount of the cash or non-cash asset to be transferred, adjusted, where necessary, for the time value of money in accordance with paragraph 109~~108~~.

~~AG113.~~AG112. A transfer expense without performance obligations may include variable costs where, for example, the entity (the transfer provider) has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. In accordance with paragraph 105~~104~~, an entity's (a transfer provider's) best estimate of the amount it will incur to settle the liability reflects the entity's assessment of the costs that the transfer recipient is likely to incur.

~~AG114.~~AG113. When the entity (the transfer provider) makes its best estimate of the amount it will incur to settle the liability, the entity (the transfer provider) shall consider all information that is reasonably available to the entity. Where the binding arrangement that establishes a transfer expense without performance obligations that includes variable costs specifies the expected amount of the transfer expense, an entity (the transfer provider) may use this figure as its best estimate where this is consistent with any other evidence available to the entity (the transfer provider). The figure specified in the binding arrangement is most likely to provide a reliable estimate in the early days of the binding arrangement. This may change as the transfer recipient undertakes the activities specified in the binding arrangement, and the entity (the transfer provider) shall update its estimate as it obtains more recent evidence.

~~AG115.~~AG114. In rare cases, for example where the binding arrangement either does not specify an expected amount and where additional evidence (such as the costs incurred by the transfer recipient) is not available, the entity (the transfer provider) may not be able to make a reliable estimate of the liability. In such cases, the recognition criteria for the liability are not met, and no liability or expense are recognized until such time as a reliable estimate can be made. This may be the point at which the entity (the transfer provider) transfers the promised resources to the transfer recipient.

~~**Disclosure (see paragraphs 125–146)**~~

~~*Disclosure of Disaggregated Expenses*~~

~~AG116. Paragraph 131 requires an entity to disaggregate expenses from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expenses and cash flows are affected by economic factors. Consequently, the extent to which an entity's expenses are disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements for transfer expenses with performance obligations. Some entities may need to use more than one type of category to meet the objective in paragraph 131 for disaggregating expenses. Other entities may meet the objective by using only one type of category to disaggregate expenses.~~

~~AG117. When selecting the type of category (or categories) to use to disaggregate expenses, an entity shall consider how information about the entity's expenses has been presented for other purposes, including all of the following:~~

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

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

~~(c) Other information that is similar to the types of information identified in paragraph AG115(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.~~

~~AG118. Examples of categories that might be appropriate include, but are not limited to, all of the following:~~

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

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

~~(c) Market or type of transfer recipient (for example, government and non-government transfer recipients);~~

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

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

~~(f) Timing of transfer of goods or services (for example, transfer expenses for goods or services transferred to third-party beneficiaries at a point in time and transfer expenses for goods or services transferred over time).~~

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 88 is amended, and paragraph 153N is added. New text is underlined, and deleted text is struck through.

…

Structure and Content

…

Statement of Financial Position

…

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **Property, plant, and equipment;**

(b) **Investment property;**

(c) **Intangible assets;**

(d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**

(e) **Investments accounted for using the equity method;**

(f) **Inventories;**

(g) **Recoverables from non-exchange transactions (taxes and transfers);**

(ga) **Transfer provider's binding arrangement assets;**

(h) **Receivables from exchange transactions;**

(i) **Cash and cash equivalents;**

(j) **Taxes and transfers payable;**

(ja) **Social benefits liabilities;**

(jb) **Transfer provider's binding arrangement liabilities;**

(k) **Payables under exchange transactions;**

(l) **Provisions;**

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

(n) **Non-controlling interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

…

Effective Date

153N. **Paragraph 88 was amended by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Date]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

Implementation Guidance

…

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

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
…		
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Social benefits	(X)	(X)
~~Grants and other transfer payments~~ Transfer expenses	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total Expenses	(X)	(X)

…

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended and paragraph 63H is added. New text is underlined, and deleted text is struck through.

…

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

Presentation of a Cash Flow Statement

…

Operating Activities

…

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

    (a) Cash receipts from taxes, levies, and fines;

    (b) Cash receipts from charges for goods and services provided by the entity;

    (c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;

    (d) Cash receipts from royalties, fees, commissions, and other revenue;

    (da) Cash payments to beneficiaries of social benefit schemes;

    (db) Cash payments for transfer expenses;

    (e) Cash payments to other public sector entities to finance their operations (not including loans);

    (f) Cash payments to suppliers for goods and services;

    (g) Cash payments to and on behalf of employees;

    (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

    (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

    (j) Cash receipts and payments from contracts held for dealing or trading purposes;

    (k) Cash receipts or payments from discontinuing operations; and

    (l) Cash receipts or payments in relation to litigation settlements.

    Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 83A of IPSAS 17, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

…

Effective Date

63H. **Paragraph 22 was amended by [draft] IPSAS [X] (ED 72), *Transfer Expenses*, issued in [Month] [Date]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.**

…

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

Paragraphs 41A, 43A, 43B and 154H are added. New text is underlined, and deleted text is struck through.

...

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

…

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

Recognition and/or Measurement of Assets and/or Liabilities

…

41A. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of [draft] IPSAS [X] (ED 72), *Transfer Expenses*.**

…

Recognition and/or Measurement of Transfer Expenses

43A. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSAS. A first-time adopter may change its accounting policy in respect of revenue from transfer expenses on a class-by-class basis**.

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with [draft] IPSAS [X] (ED 72), *Transfer Expenses,* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of [draft] IPSAS [X] (ED 72). The transitional provision in paragraph 43A allows a first-time adopter to apply [draft] IPSAS [X] (ED 72) incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of transfer expenses in accordance with [draft] IPSAS [X] (ED 72) from the date of adoption of IPSAS, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with performance obligations.

	Transitional exemption provided	
	NO	**YES**

		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
…								
[Draft] IPSAS [X] (ED 72), *Transfer Expenses*			✓ All transfer expenses not recognized under previous basis of accounting	✓ All transfer expenses recognized under previous basis of accounting	✓ To extent that 3-year relief period was adopted for assets and/or liabilities			

…

Amendments to IPSAS 42, *Social Benefits*

Paragraph IG2 is amended New text is underlined, and deleted text is struck through.

…

This guidance accompanies, but is not part of, IPSAS 42

…

Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

[Draft] IPSAS [X] (ED 72) ~~Non-Exchange Expenses Project~~ Social Benefits Other IPSAS/IFRS

Category	~~Grants, Contributions and Other~~ Transfers ~~Expenses~~	~~Emergency Relief~~	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	~~Grants~~Transfers to other public sector entities ~~Grants~~Transfers to charities	~~Emergency relief Planning and preparation activities~~	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Transaction?	Both	~~Non-Exchange~~	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	Sometimes	~~Sometimes~~	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	~~Sometimes~~	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	No	~~No~~	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	~~No~~	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS X (ED 72), Transfer Expenses.

Objective (paragraph 1)

BC1. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services and transfer expenses accounts for a significant portion of their expenditure.

BC2. Despite the importance of social benefits, collective and individual services and transfer expenses for most governments, until recently there had been little guidance in the IPSASB's literature on how to account for these transactions. The IPSASB undertook a phased program of work to address these transactions, beginning with IPSAS 42, *Social Benefits*, issued in January 2019 and continuing with *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020. [Draft] IPSAS [X] (ED 72), *Transfer Expenses*, completes this program and fills a significant gap in the IPSASB's literature.

BC3. [Draft] IPSAS [X] (ED 72) provides guidance to preparers about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.

Scope (paragraphs 2–5)

BC4. Non-exchange transactions were defined in IPSAS 9, *Revenue from Exchange Transactions*:

> *Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.*

BC5. This definition includes a wide range of transactions, including some that are addressed in other Standards. As an example, expenses associated with concessionary loans are addressed in IPSAS 29, *Financial Instruments: Recognition and Measurement*, and its successor Standard, IPSAS 41, *Financial Instruments*. It followed that a future Standard addressing non-exchange expenses would need to clearly set out which transactions would be within its scope and which transactions would be outside its scope.

BC6. The IPSASB issued its Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. The CP discussed various types of non-exchange expenses, including collective services, universally accessible services, and grants, contributions and other transfers, but did not discuss the scope of non-exchange expenses any further.

BC7. The CP did not discuss social benefits, which were being addressed in a separate active project. Collective services and universally accessible services are now referred to as collective and individual services, and have been addressed in a separate project. As noted above, the IPSASB has issued final pronouncements addressing these transactions.

BC8. In developing [draft] IPSAS [X] (ED 72), the IPSASB considered the scope of the [draft] Standard, and came to the following conclusions:

(a) The IPSASB noted that respondents to the CP had identified practical difficulties with distinguishing between exchange transactions and non-exchange transactions. The IPSASB also noted that, in part because of these difficulties, the *Revenue* project that the IPSASB was undertaking simultaneously with its non-exchange project was proposing a distinction based on the presence (or absence) of a performance obligation. This distinction would largely replace the current exchange transaction/non-exchange transaction distinction. The IPSASB considered that it would be appropriate to apply this distinction to expenses as well as revenue. Requiring an entity to determine whether a transaction was an exchange transaction or a non-exchange transaction, prior to determining whether a transaction had performance obligation would introduce a level of complexity that was unwarranted. For these reasons, the IPSASB agreed that the scope of [draft] IPSAS [X] (ED 72) should not be based on the definition of a non-exchange expense.

(b) A 'residual expenses' Standard, addressing any expenses not covered in another Standard, was rejected as this would exceed the IPSASB's intentions when issuing the CP. The IPSASB also considered that including exchange transactions might raise additional issues that would require additional time and resources to resolve, but which were not seen as a priority by the IPSASB's stakeholders.

(c) The IPSASB noted that the main group of transactions discussed in the CP and not addressed by the IPSASB's other Standards or active projects was grants, contributions and other transfers. The IPSASB noted that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks (this definition is discussed further in paragraphs BC11–BC12). Aligning the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*. Consequently, the IPSASB agreed to align the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks.

BC9. Having agreed to base the scope of [draft] IPSAS [X] (ED 72) with the definition of 'transfers' in the statistical reporting frameworks, the IPSASB specifically considered research grants. The IPSASB noted that where the grantee retained the intellectual property resulting from the research, such grants would be covered by the definition of transfers. Where the intellectual property passed to the grantor, such grants would not be covered by the definition of transfers. The IPSASB noted that this was consistent with the approach taken in the statistical reporting frameworks. Consequently, the IPSASB agreed that no specific requirements in respect of research grants were required.

BC10. The IPSASB also noted that contributions from owners and distributions to owners did not meet the definition of transfers, and were consequently outside the scope of [draft] IPSAS [X] (ED 72). This is explained further in paragraph 4 of [draft] IPSAS [X] (ED 72).

Definitions (paragraphs 6–7)

BC11. The *Government Finance Statistics Manual 2014* (GFSM 2014) defines a transfer as follows:

A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.

BC12. The IPSASB noted that this definition does not cover all non-exchange transactions as defined in IPSAS 9 (see the definition in paragraph BC4 above). Specifically, the definition does not cover transactions where one party provides a good, service or asset to another party, and receives a

good, services or asset in return, but that good, service or asset is not of approximately equal value. The IPSASB noted that determining what amounted to approximately equal value was one of the difficulties stakeholders had experienced with the definition of non-exchange expenses. Consequently, the IPSASB considered that clarity of the GFSM 2014 definition of transfers outweighed the disadvantages of excluding a small number of non-exchange expenses from the scope of [draft] IPSAS [X] (ED 72).

BC13. Having agreed to use the GFSM 2014 definition of transfers as the basis for the scope of [draft] IPSAS [X] (ED 72), the IPSASB agreed to base its definition of 'transfer expenses' on the GFSM definition. The IPSASB agreed to adopt the term transfer expenses as the term transfers had previously been used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, where the term transfers referred to inflows (i.e., revenue) only.

BC14. [Draft] IPSAS [X] (ED 72) complements [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*. Consequently, [draft] IPSAS [X] (ED 72) relies on the definitions in those [draft] Standards where possible (see paragraph 7 of [draft] IPSAS [X] (ED 72)). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to provide definitions of:

(a) Stand-alone purchase price;

(b) Transaction consideration;

(c) Transfer provider's binding arrangement asset; and

(d) Transfer provider's binding arrangement liability

in [draft] IPSAS [X] (ED 72). These definitions are based on the definitions of stand-alone price, transaction price, binding arrangement liability and binding arrangement asset in [draft] IPSAS [X] (ED 70).

BC15. The IPSASB also considered the definition of expenses in IPSAS 1, *Presentation of Financial Statements*, and concluded that no changes were required. The IPSASB agreed to include a cross-reference to this definition in [draft] IPSAS [X] (ED 72) (see paragraph 7 of [draft] IPSAS [X] (ED 72)).

Transfer Expenses with Performance Obligations (paragraph 8)

BC16. One of the drivers that led to the IPSASB developing the CP was the issuing of IFRS 15, *Revenue from Contracts with Customers*, by the International Accounting Standards Board (the IASB®). IFRS 15 introduced a performance obligation approach for the recognition of revenue. The IPSASB considered whether to adopt a similar approach in its revenue standards. The IPSASB concluded that an extended version of the approach in IFRS 15 would be appropriate for revenue transactions with performance obligations, for the following reasons:

(a) The approach is consistent with the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework);

(b) The approach is consistent with other IPSAS; and

(c) The approach resolves the problem of determining whether a transaction is an exchange transaction or a non-exchange transaction by using a different basis in determining the accounting policy to be followed.

BC17. Consequently, the IPSASB proposed the adoption of a Public Sector Performance Obligation Approach (PSPOA) for revenue in the CP.

BC18. The IPSASB also considered whether a similar approach would be appropriate for the recognition of expenses within the scope of [draft] IPSAS [X] (ED 72), noting that the performance obligations would be those imposed on the transfer recipient. The IPSASB noted that the advantages of adopting the PSPOA for revenue would apply equally to expenses.

BC19. Consequently, the IPSASB included a preliminary view in the CP that "where grants, contributions and other transfers contain either performance obligations or stipulations, they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue."

BC20. Respondents to the CP were, on the whole, supportive of adopting the PSPOA for expenses, but raised several issues. The IPSASB agreed, therefore, to develop the PSPOA for use in [draft] IPSAS [X] (ED 72), and proceeded to consider the technical issues associated with the PSPOA.

Existence of Asset

BC21. The PSPOA for expenses applies where the entity has entered into a binding arrangement that imposes a performance obligation on the other party to transfer goods or services to a third-party beneficiary. The IPSASB noted that in some cases, the terms of the binding arrangement would result in the entity having a present obligation to transfer resources to the other party prior to the other party having satisfied their performance obligations. If the entity had not transferred the resources, this would give rise to a liability.

BC22. If the entity were to recognize an expense as the other party satisfied its performance obligations, it follows that the entity should not recognize an expense at the point it recognizes the liability, but a corresponding asset. The IPSASB, therefore, considered the nature of that asset.

BC23. The IPSASB noted that the asset could not be the resources transferred, or the right to have those resources returned, as at the point the liability is recognized, the resources have been transferred.

BC24. The *Conceptual Framework* defines an asset as:

A resource presently controlled by the entity as a result of a past event

BC25. The IPSASB considered two components of this definition – whether there is a resource (and if so, what that resource is); and whether the resource is presently controlled by the entity as a result of a past event.

Resource

BC26. The first component of the definition of an asset is "a resource." The *Conceptual Framework* defines a resource as "an item with service potential or the ability to generate economic benefits."

BC27. If the goods or services were to be transferred to the transfer provider, it would clear that there is a right to receive resources, and consequently, the definition of a resource would be met. However, the definition of a transfer expense excludes transactions where the transfer provider receives goods or services.

BC28. In a transfer expense, the transfer provider provides resources to the transfer recipient to deliver goods or services to third-party beneficiaries (service recipients). The IPSASB considered whether the right to have goods or services transferred to the specified third parties satisfies the definition of a resource as "an item with service potential or the ability to generate economic benefits." The

IPSASB concluded that, as the goods or services being transferred will allow the transfer provider to meet their objectives, the right to have goods or services transferred to the specified third parties will satisfy the definition of a resource as that right will be an item with service potential.

Control

BC29. The second component of the definition of an asset is that the resource is "presently controlled by the entity as a result of a past event."

BC30. The *Conceptual Framework* gives four indicators of control:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict access to the resource;

(c) The means to ensure that the resource is used to achieve its objectives; and

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

BC31. The transfer provider will have an enforceable right under the binding arrangement to have goods or services transferred to a third-party beneficiary. The IPSASB concluded that, as a result of this enforceable right, the transfer provider will have the means to ensure that the resource is used to achieve the transfer provider's objectives. The IPSASB agreed that means that the transfer provider presently controls the resource.

BC32. In order to meet the definition of an asset, this present control must be as a result of a past event. Both the enforceable right to have the goods or services transferred to a third-party beneficiary (the resource), and the control of that resource arise from the binding arrangement. It follows that the past event is the entering into the binding arrangement.

Conclusion

BC33. Consequently, the IPSASB concluded that the transfer provider would presently control the resource as a result of a past event once the transfer provider has entered into the binding arrangement. The item therefore satisfies the definition of an asset.

BC34. The IPSASB agreed that the transfer provider would recognize an asset for the right to have goods or services provided to third-party beneficiaries. The transfer provider would control this asset until the transfer recipient met its performance obligations. At this point., the asset would be derecognized, and an expense recognized, as the transfer recipient provided the goods or services to the third-party beneficiaries. The IPSASB agreed that this is consistent with adopting the PSPOA for expenses.

Public Sector Performance Obligation Approach. (paragraphs 9–88)

BC35. Having agreed the conceptual basis for adopting the PSPOA for expenses, the IPSASB developed the detailed recognition and measurement requirements. In the CP, the IPSASB had expressed the view that "it is important for the approach in a Non-Exchange Expenses standard to mirror the approach adopted for equivalent revenue transactions." Consequently, the IPSASB agreed to take, as the starting point for the PSPOA in [draft] IPSAS [X] (ED 72), the recognition and measurement requirements of [draft] IPSAS [X] (ED 70), amended to fit the transfer provider's perspective, to the extent that this did not conflict with the *Conceptual Framework* or requirements in other IPSAS.

BC36. The PSPOA for revenue adopted in [draft] IPSAS [X] (ED 70) is based on the requirements in IFRS 15. The decisions the IPSASB took in modifying those requirements in [draft] IPSAS [X] (ED 70) are explained in the Basis for Conclusions to [draft] IPSAS [X] (ED 70), and are not repeated here. This Basis for Conclusions explains the decisions taken by the IPSASB in modifying the PSPOA for revenue to form the PSPOA for expenses adopted in [draft] IPSAS [X] (ED 72).

Pervasive Modifications Due to the Scope of [Draft] IPSAS [X] (ED 72)

BC37. In modifying the PSPOA to be suitable for accounting for expenses, the IPSASB identified two pervasive issues that required addressing:

(a) Expense perspective. The requirements in [draft] IPSAS [X] (ED 70) have been amended to reflect the transfer provider's perspective, that is, to reflect a requirement that the transfer provider recognizes an expense when the transfer recipient's performance obligations have been satisfied. In making these amendments, the IPSASB has sought to make it clear that the performance obligations that determine when an expense is recognized are the performance obligations imposed on the transfer recipient in the binding arrangement. The performance obligations imposed on the transfer provider (to transfer resources, usually cash, to the transfer recipient) do not determine when an expense should be recognized under the PSPOA.

(b) Third-party beneficiaries. The scope of [draft] IPSAS [X] (ED 72) is limited to transactions where the transfer provider does not receive any goods, services or assets in return. [Draft} IPSAS [X] (ED 70) does not have this limitation, and therefore includes transactions where the purchaser pays the supplier and receives goods or services in return. The requirements in [draft] IPSAS [X] (ED 70) have been amended to ensure that in all cases they refer to third-party beneficiaries as the only recipients under the PSPOA.

Other Modifications to the Recognition and Measurement Requirements

BC38. Some requirements in [draft] IPSAS [X] (ED 70) are not relevant to the transfer provider, for example the guidance on assessing the probability of collecting the promised consideration, and the guidance on agreements to repurchase transferred assets. Such requirements are omitted from [draft] IPSAS [X] (ED 72). In omitting this guidance, the IPSASB agreed to retain guidance that it considered might be relevant to transfer providers in a limited number of circumstances. An example of the guidance the IPSASB agreed to retain is the guidance on bill-and-hold arrangements, which the IPSASB considered might apply where the transfer recipient was producing vaccines or textbooks, and delivering these to the third-party beneficiaries on demand.

BC39. [Draft] IPSAS [X] (ED 70) includes both input methods and output methods in the guidance on measuring the satisfaction of performance obligations. [Draft] IPSAS [X] (ED 72) emphasizes output methods (from the transfer recipient's perspective). The IPSASB took the view that the transfer provider is unlikely to have the information required to use an input method. However, the IPSASB also agreed not to prohibit input methods, but to direct preparers to the guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the transfer provider has sufficient information about a transfer recipient's inputs to make the use of an input method appropriate. The IPSASB decided to adopt the same approach to other guidance in [draft[IPSAS [X] (ED 70) where it considered it unlikely that the transfer provider would have sufficient information to be able to apply the guidance, for example the estimated cost approach for determining the stand-alone purchase price. The option to apply the additional guidance in [draft] IPSAS [X] (ED 70) on the rare occasions when the

transfer provider has sufficient information to do so is explained in paragraph AG25 of [draft] IPSAS [X] (ED 72).

BC40. In accounting for performance obligations that are satisfied over time, [draft] IPSAS [X] (ED 70) includes guidance on when a transfer recipient's right to payment for work completed to date is sufficient to cover costs plus a reasonable margin. The IPSASB concluded that this guidance is relevant to the transfer recipient, as revenue is only recognized when the right to payment exceeds the transfer recipient's costs. However, for the transfer provider, the only relevant consideration is whether it has a present obligation to pay for the transfer recipient's work completed to date. The IPSASB therefore agreed not to include any guidance on determining whether the right to payment is sufficient to cover costs plus a reasonable margin.

BC41. [Draft] IPSAS [X] (ED 70) measures non-cash consideration at fair value, which is consistent with the measurement approach for non-cash consideration used in other IPSAS. In [draft] IPSAS [X] (ED 72), non-cash consideration is measured at the carrying amount of the asset derecognized. This is consistent with the derecognition provisions in other IPSAS. While this difference may result in the transfer provider and the transfer recipient measuring a transaction at different amounts, the IPSASB considered that the measurement approaches adopted in the two [draft] Standards are consistent with the *Conceptual Framework*.

BC42. [Draft] IPSAS [X] (ED 70) includes guidance on purchaser acceptance. The IPSASB agreed to refer instead to the third-party beneficiary's acceptance, and to redraft the guidance to be relevant to the context of [draft] IPSAS [X] (ED 72).

Complexity of Requirements

BC43. The IPSASB reviewed the requirements for the PSPOA and considered whether these were more complex than was required for accounting for transfer expenses. The IPSASB accepted that in many cases, a binding arrangement for a transfer expense would contain only a single performance obligation and that many of the requirements would therefore not be needed. However, the IPSASB noted that there would be some transactions, for example where a national government provided funding to a provincial government with multiple performance obligations, possibly over multiple accounting periods, where the more detailed requirements would be needed.

BC44. Consequently, the IPSASB concluded that the level of complexity was appropriate for the transactions that might be encountered by some public sector entities. In coming to this conclusion, the IPSASB noted that where a transaction contained a single performance obligation, the application of the guidance would be straightforward.

Transfer Expenses without Performance Obligations (paragraphs 89–119)

BC45. [Draft] IPSAS [X] (ED 71) specifies the requirements for accounting for revenue without performance obligations. The IPSASB considered whether, and to what extent, it would be appropriate to base the requirements for accounting for transfer expenses without performance obligations on the guidance in [draft] IPSAS [X] (ED 71).

BC46. [Draft] IPSAS [X] (ED 71) includes two approaches to recognizing revenue without performance obligations:

(a) A binding arrangement may impose a requirement on a transfer recipient to undertake an enforceable activity (i.e., an obligation to act in a certain way) and/or to incur eligible expenditure (i.e., an obligation to incur expenditure on goods or services specified in the

binding arrangement). In such cases, the transfer recipient recognizes revenue as it complies with the terms of the binding arrangement.

(b) The transfer recipient receives resources without the existence of a binding arrangement. In such cases, the transfer recipient recognizes revenue as it gains control of the resources.

BC47. The IPSASB considered whether, and to what extent, it would be appropriate to base the requirements for accounting for transfer expenses without performance obligations on each of these approaches in turn.

Enforceable Activities and Eligible Expenditure

BC48. The revenue recognition requirements where a binding arrangement imposes a requirement to undertake enforceable activities and/or incur eligible expenditure on the transfer recipient are similar to those for revenue with performance obligations. Revenue is only recognized as the transfer recipient complies with its obligations.

BC49. The IPSASB therefore considered these requirements in the light of its conclusions in respect of transfer expenses with performance obligations (see paragraphs BC16–BC34). The IPSASB noted that, under the PSPOA, a transfer provider recognized an expense as the transfer recipient complied with its obligations because, until that point, it had an asset for the right to require the transfer recipient to transfer goods or services to a third-party beneficiary.

BC50. The IPSASB considered whether a similar asset would arise where the binding arrangement imposes a requirement to undertake enforceable activities and/or incur eligible expenditure on the transfer recipient.

BC51. The IPSASB noted that a requirement to undertake enforceable activities and/or incur eligible expenditure does not involve the transfer of goods or services to another party. Consequently, the IPSASB doubted whether it would be possible in all circumstances to identify a resource.

BC52. Furthermore, the IPSAS considered that even if it were possible to identify a resource (for example, where a binding arrangement requires a transfer recipient to construct an asset), that resource will never be controlled by the transfer provider. The IPSASB concluded that the definition of an asset is not met, and that no asset could be recognized on the statement of financial position.

BC53. The IPSASB then considered whether the right to have the resources returned if the transfer recipient did not comply with its obligations in the binding arrangement would constitute an asset for the transfer provider. The IPSASB concluded that, at the point that the resources are transferred, the transfer provider does not have a right of return. The right of return is contingent on the transfer recipient's future non-compliance with the binding arrangement, and therefore does not constitute a resource that is presently controlled by the transfer provider. Consequently, the IPSASB concluded that the right to have the resources returned if the transfer recipient did not comply with its obligations in the binding arrangement does not give rise to an asset for the transfer provider at the point the resources are transferred.

BC54. In the absence of an asset, the recognition of a liability (or the derecognition of another asset) would normally result in the recognition of an expense. However, the *Conceptual Framework* allows the IPSASB to require the recognition of other resources where this is necessary to achieve the objectives of financial reporting. The recognition of other resources could result in an expense being recognized as the transfer recipient complies with their obligations, mirroring the treatment in [draft] IPSAS [X] (ED 71).

BC55. The IPSASB considered whether the recognition of other resources would be necessary to achieve the objectives of financial reporting. The IPSASB concluded that the recognition of an expense best reflected the substance of the transaction for the transfer provider, and that recognizing other resources would therefore not achieve the objectives of financial reporting.

BC56. Consequently, the IPSASB agreed that, where a binding arrangement imposes a requirement to undertake enforceable activities and/or incur eligible expenditure on the transfer recipient, a transfer provider should not recognize an expense as the transfer recipient complies with its obligations. Rather, the IPSASB agreed that the transfer provider should recognize an expense when it has a present obligation to transfer resources (or, if earlier, when it loses control of those resources).

BC57. The IPSASB agreed that, where a binding arrangement imposes a requirement to undertake enforceable activities and/or incur eligible expenditure on the transfer recipient, it would not be appropriate to base the requirements in [draft] IPSAS [X] (ED 72) on the equivalent requirements for revenue in [draft] IPSAS [X] (ED 71).

Resources Transferred without the Existence of a Binding Arrangement

BC58. In the absence of a binding arrangement, the transfer recipient would recognize revenue when it gained control of the resources, as, in the absence of a binding arrangement, it would have no associated liability.

BC59. The IPSASB considered the application of this principle to the transfer provider, and agreed that, in the absence of a binding arrangement, the transfer provider would not have an asset once control of the resources had been lost. Consequently, the IPSASB agreed that for transfer expenses which did not involve a binding arrangement, it would be appropriate for the requirements in [draft] IPSAS [X] (ED 72) to mirror the equivalent requirements for revenue in [draft] IPSAS [X] (ED 71).

Recognition Principle

BC60. Having concluded that it was not appropriate to mirror the revenue recognition requirements in [draft] IPSAS [X] (ED 71) in all cases, the IPSASB considered the recognition principle that should apply to transfer expenses without performance obligations. The IPSASB noted that, in accordance with the *Conceptual Framework*, an expense would be recognized either when an entity recognized a liability without recognizing a corresponding asset, or when it derecognized an asset. The IPSASB concluded that this reflected the substance of transfer expenses without performance obligations, and agreed the following recognition principle:

An entity (a transfer provider) shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) When the entity (the transfer provider) has a present obligation to transfer resources to a transfer recipient. In such cases, the entity (the transfer provider) shall recognize a liability representing its obligation to transfer the resources; and

(b) When the entity (the transfer provider) ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.

Specific Recognition Issues

BC61. [Draft] IPSAS [X] (ED 71) contains guidance on accounting for revenue from debt forgiveness. The IPSASB reviewed this guidance and concluded that similar guidance should be included in [draft] IPSAS [X] (ED 72), covering the recognition of an expense when debt is forgiven. The IPSASB noted that the derecognition of the debt should be in accordance with IPSAS 41.

BC62. The IPSASB noted that some binding arrangements may require a transfer provider to make a series of transfers, for example one transfer per year over a three-year period. The IPSASB considered when a present obligation to make each transfer would arise, and concluded that this would be dependent on the nature of the binding arrangement. The IPSASB concluded that a transfer provider should apply the recognition principle to each transfer of resources to determine whether an expense is to be recognized.

BC63. The IPSASB noted that in some jurisdictions, a binding arrangement for a transfer expense without performance obligations might be made subject to the appropriation being approved. The IPSASB considered whether such a limitation should affect the recognition of an expense. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. In some jurisdictions, a transfer provider would be prohibited from transferring the promised resources until the appropriation was approved; in other jurisdictions, no such prohibition would exist. The IPSASB agreed that the transfer provider should consider substance over form, and where the limitation has substance, the transfer provider should not recognize an expense prior to the appropriation being approved. The IPSASB also agreed to include guidance on determining whether the limitation that future transfers were subject to the appropriation being approved has substance.

BC64. [Draft] IPSAS [X] (ED 71) contains guidance on accounting for revenue from taxation. The IPSASB noted that the IASB had issued an interpretation, IFRIC 21, *Levies*, that addresses the recognition of expenses relating to taxes (other than income taxes). The IPSASB reviewed the interpretation, and concluded that the requirements were consistent with those in [draft] IPSAS [X] (ED 71). In particular, the past event identified in IFRIC 21, which gives rise to an expense is consistent with the taxable event identified in [draft] IPSAS [X] (ED 71), which gives rise to revenue. Consequently, the IPSASB agreed to incorporate guidance on recognizing an expense arising from taxation, based on the requirements in IFRIC 21.

Measurement

BC65. In a transfer expense, the transfer provider gives up resources. The IPSASB agreed that the expense (and any liability to be recognized) should be measured at the carrying amount of the resources given up, as this is consistent with the derecognition requirements in other IPSAS. The IPSASB agreed that this amount should be adjusted for estimates of variable cost and for the time value of money where appropriate.

BC66. In developing the guidance on subsequent measurement, the IPSASB agreed to extend the application of this guidance to payables arising out of the operation of legislation or regulation that do not meet the definition of a transfer expense. Most payables arising out of the operation of legislation or regulation will be within the scope of [draft] IPSAS [X] (ED 72). However, the IPSASB considered it important to ensure that appropriate guidance on subsequent measurement was available for all such payables. Because payables arising out of the operation of legislation or regulation do not arise from binding arrangements, they are outside the scope of IPSAS 41, and

subsequent measurement of such payables is not addressed in other Standards; for example, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, only addresses the subsequent measurement of provisions, not payables.

Presentation and Disclosure (paragraphs 120–143)

BC67. The IPSASB developed the presentation and disclosure requirements in [draft] IPSAS [X] (ED 72) by reviewing the equivalent requirements in [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71).

BC68. In carrying out this review, the IPSASB sought to ensure that the presentation and disclosure requirements would provide useful information for users of the financial statements, while avoiding information overload or excessive costs for preparers. A key factor in the review was the context of [draft] IPSAS [X] (ED 72); the IPSASB considered that not all the information that was needed to assess the performance of a transfer recipient was necessary in assessing the performance of a transfer provider. For this reason, the IPSASB agreed not to include disclosure requirements for the disaggregation of expenses and the detailed information on binding arrangement balances.

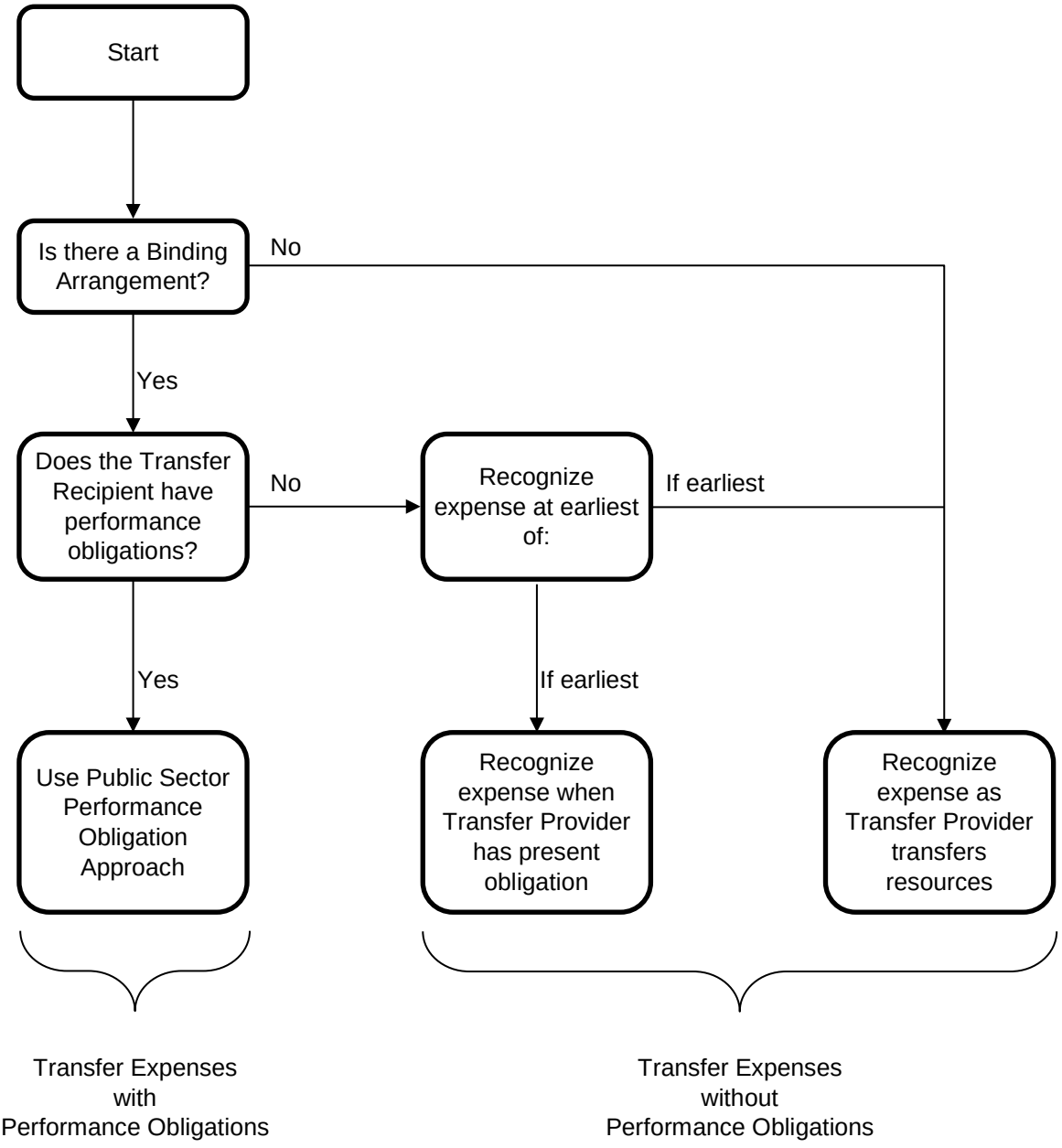
BC69. The IPSASB also considered whether it would be appropriate to require a transfer provider to disclose how the transfer of goods and services to third-party beneficiaries enables the transfer provider to meet its service objectives. The IPSASB concluded that such information was more suitable for reporting service performance information (see RPG 3, *Reporting Service Performance Information*).

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 72)

Accounting for Transfer Expenses

IG1. The following diagram summarizes the arrangements for accounting for transfer expenses.



IG2. [Draft] IPSAS [X] (ED 72) complements [Draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and [Draft] IPSAS [X] (ED 72), *Revenue without Performance Obligations*. The following table illustrates which transactions are within the scope of each [draft] Standard.

Description	Revenue with Performance Obligation [Draft] IPSAS [X] (ED 70)	Revenue without Performance Obligations [Draft] IPSAS [X] (ED 71)			Transfer Expenses [Draft] IPSAS [X] (ED 72)			Outside the scope of Transfer Expenses [Draft] IPSAS [X] (ED 72)
		Enforceable Activities or Eligible Expenditure	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B to undertake specified activities or incur specified expenditure		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓			✓	

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 72), Transfer Expenses. They illustrate aspects of IPSAS [X] (ED 72) but are not intended to provide interpretive guidance.

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in [draft] IPSAS [X] to particular aspects of a transfer expense on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 72).

Scope

IE2. Example 1–Example 3 illustrate the requirements in paragraphs 2–5 and AG5–AG6 of [draft] IPSAS [X] (ED 72) on the determination of whether a transaction Is within the scope of [draft] IPSAS [X] (ED 72). Example 3 illustrates the requirement in paragraph 5 regarding transactions with some components that are within the scope of [draft] IPSAS [X] (ED 72) and some components that are within the scope of other Standards.

Example 1 Transaction Where the Transfer Recipient Provides Goods and Services

IE3. An international organization enters into a binding arrangement to purchase a vehicle from a motor dealer for CU30,000[2]. Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A—Vehicle is Provided to the International Organization

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the international organization.

IE5. The binding arrangement does not give rise to a transfer expense, as the international organization receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The international organization applies IPSAS 17, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle.

Case B— Vehicle is Provided to a National Government

IE6. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government.

IE7. The binding arrangement gives rise to a transfer expense as the international organization transfers the consideration of CU30,000 to the dealer without receiving any goods, services or assets in return. Rather, the vehicle and maintenance services are transferred to the national government (the third-party beneficiary). The international government (the transfer provider) applies [draft] IPSAS [X] (ED 72) in accounting for the binding arrangement. Because the binding arrangement requires the dealer to transfer goods and services to a third-party beneficiary, the international

[2] In these examples monetary amounts are denominated in ‘currency units’ (CU)

organization accounts for the binding arrangement as a transfer expense with performance obligations (see paragraphs 8–88).

Example 2 Research Grants

IE8. A national government enters into a binding arrangement with a research university whereby the national government will provide the research university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

Case A—National Government Controls Research

IE9. The binding arrangement includes a requirement that the research university will transfer the results of the research to the national government, which will own the intellectual property in the research, and any patents arising out of the research.

IE10. The binding arrangement does not give rise to a transfer expense, as the national government receives the intellectual property in the research in return for providing the research grant. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

Case B—Research University Controls Research

IE11. The binding arrangement does not require the research university to transfer the results of the research to the national government. Rather, the research university will retain control of the intellectual property in the research, and any patents arising out of the research.

IE12. The binding arrangement gives rise to a transfer expense as the national government transfers the research grant to the research university without receiving any goods, services or assets in return. The national government (the transfer provider) applies [draft] IPSAS [X] (ED 72) in accounting for the binding arrangement. Because the binding arrangement does not require the research university to transfer any goods or services to a third-party beneficiary, the national government accounts for the binding arrangement as a transfer expense without performance obligations (see paragraphs 89–119).

Example 3 Transaction with Components Within the Scope of Other IPSAS

IE13. A local government enters into a binding arrangement to purchase two vehicles from a motor dealer for CU40,000. One vehicle is to be transferred to the local government; the other vehicle is to be transferred to a not-for-profit organization.

IE14. The transfer of the vehicle to the not-for-profit organization is a transfer expense, as the local government transfers part of the consideration to the dealer without receiving any goods or services in return. The transfer of the vehicle to the local government is not a transfer expense, as the local government receives the vehicle in return for part of the consideration. The local government applies IPSAS 17 in accounting for the purchase of the vehicle it receives.

IE15. Paragraph 5(a) of [draft] IPSAS [X] (ED 72) requires an entity to first apply the separation and/or measurement requirements in other Standards if those other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement. IPSAS 17 does not specify how to separate and/or initially measure one or more parts of the binding arrangement. Consequently, the local government applies the requirements in [draft] IPSAS [X] (ED 72) to

separate and/or initially measure the two parts of the binding arrangement, in accordance with paragraph 5(b) of [draft] IPSAS [X] (ED 72).

Assessing Whether a Transfer Expense Includes a Performance Obligation

IE16. Paragraph 8 of [draft] IPSAS [X] (ED 72) requires an entity to account for transfer expenses with performance obligations using the public sector performance obligation approach. Example 4 provides guidance on determining whether a transfer expense includes a performance obligation.

Example 4 Government Funding of Employment Program

Case A–No Performance Obligations, Specified Time Period, or Reporting to the Government

IE17. A regional government (the transfer provider) provides funding of CU5 million to a social development entity (the transfer recipient) to fund the social development entity's employment programs. The funding agreement contains a general requirement for the social development entity to spend the entire CU5 million on programs with the goal of improving unemployment in the region. However, the agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the regional government will receive or verify information on how the funds were spent.

IE18. The regional government concludes that the funding agreement is not a binding arrangement, as it does not impose obligations on the transfer recipient; the funding arrangement does not require the social development entity to transfer specific goods or services to third-party beneficiaries. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 89–119).

Case B–Specified Time Period to Spend Funds

IE19. The same facts as in Case A apply to Case B, except that the agreement now specifies that the social development entity is required to spend the funds within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not result in performance obligations, as the agreement still does not require the transfer of distinct goods or services to third-party beneficiaries—i.e., the social development entity has complete discretion over how and when within the five-year period to spend the funds. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 89–119).

Case C–Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE20. The same facts as in Case B apply to Case C, except that the agreement now also specifies how the social development entity is to report its spending to the regional government. For this agreement, although the social development entity now must spend the CU5 million within five years and report the details of its spending to the regional government, the agreement still does not have performance obligations to be enforced, as the social development entity is not required to transfer any distinct goods or services to third-party beneficiaries under the general requirement to spend the funds on employment programs. In other words, the social development entity continues to have full discretion over how to use the funds, so long as the funds are spent on activities that could reasonably relate to improving unemployment in the region. Consequently, the regional government accounts for the funding arrangement as a transfer expense without performance obligations (see paragraphs 89–119).

Case D–Arrangement Includes a Requirement to Deliver Training Courses

IE21. The same facts as in Case C apply to Case D, except that the agreement now requires the social development entity to provide specified training courses to those individuals who have been unemployed for more than 12 months. The regional government is able to monitor and enforce the provision of the training courses. The social development entity continues to have full discretion over how to use the remaining funds. The requirement to provide specified training courses to those individuals who have been unemployed for more than 12 months means that the arrangement now confers enforceable rights and obligations on both parties, and this requirement is, therefore, a performance obligation. The social development entity is required to transfer services to third-party beneficiaries, and this requirement is enforceable by the regional government. The remainder of the agreement does not include performance obligations, as discussed in Case C. Consequently, the regional government accounts for the performance obligation to provide training courses as a transfer expense with performance obligations (see paragraphs 8–88), and accounts for the remainder of the funding arrangement as a transfer expense without performance obligations (see paragraphs 89–119).

Public Sector Performance Obligation Approach

IE22. Example 5–Example 29 illustrate different aspects of the requirements in respect of the public sector performance obligation approach.

Modifications of a Binding Arrangement (Step 1)

IE23. Example 5–Example 9 illustrate the requirements in paragraphs 19–22 of [draft] IPSAS [X] (ED 72) on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 23–31 of [draft] IPSAS [X] (ED 72) on identifying transfer recipient's performance obligations (Example 7 and Example 8);

(b) Paragraphs 55–57 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration (Example 6, Example 8 and Example 9);

(c) Paragraphs 85–88 of [draft] IPSAS [X] (ED 72) on changes in the transaction consideration (Example 6).

Example 5 Modification of a Binding Arrangement for Goods

IE24. An intergovernmental organization (the Organization, which is the transfer provider) enters into a binding arrangement to pay CU12 million to a Not-for-Profit Entity (the Charity, which is the transfer recipient) to provide 1.2 million textbooks (i.e., CU10 per product) to a national government (the third-party beneficiary). The products are transferred to the government over a six-month period. The Charity transfers control of each book at a point in time. After the Charity has transferred control of 600,000 books to the government, the binding arrangement is modified to require the delivery of an additional 300,000 books (a total of 1.5 million identical books) to the government. The additional 300,000 books were not included in the initial binding arrangement.

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

IE25. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 books is an additional CU2.85 million or CU9.5 per product. The pricing

for the additional books reflects the stand-alone purchase price of the books at the time of the modification to a binding arrangement and the additional books are distinct (in accordance with paragraph 28 of [draft] IPSAS [X] (ED 72)) from the original books.

IE26. In accordance with paragraph 21 of [draft] IPSAS [X] (ED 72), the modification to a binding arrangement for the additional 300,000 books is, in effect, a new and separate binding arrangement for future books that does not affect the accounting for the existing binding arrangement. The Organization recognizes an expense of CU10 per book for the 1.2 million books in the original binding arrangement and CU9.5 per book for the 300,000 books in the new binding arrangement.

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

IE27. During the process of negotiating the purchase of an additional 300,000 books, the parties initially agree on a price of CU8.0 per book. However, the government and the Organization discover that the initial 600,000 books provided by the Charity contained minor misprints. The Charity promises a partial credit of CU1.5 per book to compensate the Organization for the poor quality of those books. The Charity and the Organization agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 books) into the amount that the Charity will require for the additional 300,000 books. Consequently, the modification to a binding arrangement specifies that the price of the additional 300,000 books is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 books of CU2.4 million, or CU8.0 per book, less the credit of CU900,000.

IE28. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of the expense for the initial 600,000 books transferred. In accounting for the transfer of the additional 300,000 books, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone purchase price of the additional books. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 21 of [draft] IPSAS [X] (ED 72) to be accounted for as a separate binding arrangement. Because the remaining books to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph 22(a) of [draft] IPSAS [X] (ED 72) and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE29. Consequently, the amount recognized as an expense for each of the remaining books is a blended price of CU9.33 {[(CU10 × 600,000 books not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 books to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining books}.

Example 6 Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE30. On July 1, 20X0, the Department of Defense (the Department, the transfer provider) enters into a binding arrangement with a supplier (the transfer recipient) to transfer two distinct used military products, light-armored vehicles and spare parts, to a state government (the third-party beneficiary). The light-armored vehicles transfer to the state government at the inception of the binding arrangement and spare parts transfer on March 31, 20X1. The consideration promised by the Department includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction consideration because it concludes that it is probable that a significant reversal in the cumulative expenses recognized will not occur when the uncertainty is resolved.

IE31. The transaction consideration of CU1.2 million is allocated equally to the transfer recipient's performance obligation for the light-armored vehicles and the transfer recipient's performance obligation for spare parts. This is because both products have the same stand-alone purchase prices and the variable consideration does not meet the criteria in paragraph 83 of [draft] IPSAS [X] (ED 72) that requires allocation of the variable consideration to one but not both of the transfer recipient's performance obligations.

IE32. When the light-armored vehicles transfer to the state government at the inception of the binding arrangement, the Department recognizes an expense of CU600,000.

IE33. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to the state government on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone purchase price of the ammunition. The stand-alone purchase price of the ammunition is the same as the stand-alone purchase prices of the light-armored vehicle and spare parts.

IE34. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which the supplier had transferred to the state government before the modification, and the promised consideration for the ammunition does not represent its stand-alone purchase price. Consequently, in accordance with paragraph 22(a) of [draft] IPSAS [X] (ED 72), the consideration to be allocated to the remaining transfer recipient's performance obligations comprises the consideration that had been allocated to the transfer recipient's performance obligation for spare parts (which is measured at an allocated transaction consideration amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction consideration for the modified binding arrangement is CU900,000 and that amount is allocated equally to the transfer recipient's performance obligation for spare parts and the transfer recipient's performance obligation for ammunition (i.e., CU450,000 is allocated to each transfer recipient's performance obligation).

IE35. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration which it expects to be obligated to pay to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 22(a) of [draft] IPSAS [X] (ED 72), the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 88 of [draft] IPSAS [X] (ED 72), the change in the transaction consideration is allocated to the transfer recipient's performance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes an expense of CU20,000 for the light-armored vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to the purchaser before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining transfer recipient's performance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been

required by paragraph 22(a) of [draft] IPSAS [X] (ED 72) if that amount of variable consideration had been estimated and included in the transaction consideration at the time of the modification of a binding arrangement.

IE36. The Department then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the transfer recipient's performance obligations for spare parts and ammunition. This is because the products have the same stand-alone purchase prices and the variable consideration does not meet the criteria in paragraph 83 that require allocation of the variable consideration to one but not both of the transfer recipient's performance obligations. Consequently, the amount of the transaction consideration allocated to the transfer recipient's performance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE37. On March 31, 20X1, the spare parts are transferred by the supplier to the state government and the Department recognizes an expense of CU460,000. On June 30, 20X1, the ammunition is transferred by the supplier to the state government and the Department recognizes an expense of CU460,000.

Example 7 Modification of a Binding Arrangement for Services

IE38. The Department of Education (the Department, the transfer provider) enters into a three-year binding arrangement with a government shared facilities management services agency (the Agency, the transfer recipient) for the Agency to provide regular maintenance services to schools (the third-party beneficiaries) on a weekly basis. The Department promises to pay CU10 million per year. The stand-alone purchase price of the maintenance services at the inception of the binding arrangement is also CU10 million per year. The Department recognizes expenses of CU10 million per year during the first two years of the Agency providing services. At the end of the second year, the binding arrangement is modified and the fee for the third year is reduced due to budget cuts at the Department to CU8 million. In addition, the Department and the Agency agree to extend the binding arrangement for three additional years for consideration of CU20 million payable in three equal annual instalments of CU6,666,667 at the beginning of years 4, 5 and 6. After the modification, the binding arrangement has four years remaining in exchange for total consideration of CU28 million. The stand-alone purchase price of the services at the beginning of the third year is CU8 million per year. The Department's stand-alone purchase price at the beginning of the third year, multiplied by the remaining number of years to provide services, is deemed to be an appropriate estimate of the stand-alone purchase price of the multi-year binding arrangement (i.e., the stand-alone purchase price is 4 years × CU8 million per year = CU32 million).

IE39. At the inception of the binding arrangement, the Department assesses that each week of maintenance service is distinct in accordance with paragraph 28 of [draft] IPSAS [X] (ED 72). Notwithstanding that each week of maintenance service is distinct, the Department accounts for the binding arrangement for maintenance services as a single performance obligation in accordance with paragraph 23(b) of [draft] IPSAS [X] (ED 72). This is because the weekly maintenance services are a series of distinct services that are substantially the same and have the same pattern of transfer to the schools (the services are performed for the schools over time and use the same method to measure progress—that is, a time-based measure of progress).

IE40. At the date of the modification, the Department assesses the remaining services to be provided to the schools and concludes that they are distinct. However, the amount of remaining consideration

to be paid (CU28 million) does not reflect the stand-alone purchase price of the services to be provided (CU32 million).

IE41. Consequently, the Department accounts for the modification in accordance with paragraph 22(a) of [draft] IPSAS [X] (ED 72) as a termination of the original binding arrangement and the creation of a new binding arrangement with consideration of CU28 million for four years of maintenance service. The Department recognizes expenses of CU7 million per year (CU28 million ÷ 4 years) as the maintenance services are provided over the remaining four years.

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

IE42. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million and a bonus of CU200,000 if the building is completed within 24 months. Housing accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with paragraph 35(b) of [draft] IPSAS [X] (ED 72) because the Association controls the building during construction.

IE43. At the inception of the binding arrangement, Housing excludes the CU200,000 bonus from the transaction consideration because it cannot conclude that it is probable that a significant reversal in the amount of cumulative expenses recognized will not occur. Completion of the building is highly susceptible to factors outside the Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE44. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards complete satisfaction of the transfer recipient's performance obligation. By the end of the first year, Housing assesses that Public Works has satisfied 60 per cent of its performance obligation on the basis of the quantity surveyor's report. Housing reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 55–57 of [draft] IPSAS [X] (ED 72). Consequently, the expenses recognized for the first year are CU600,000 (fixed consideration of CU1 million x 60%).

IE45. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration increases by CU150,000. Total potential consideration after the modification is CU1,350,000 (CU1,150,000 fixed consideration + CU200,000 completion bonus). In addition, the allowable time for achieving the CU200,000 bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Housing concludes that it is probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 55 of [draft] IPSAS [X] (ED 72) and includes the CU200,000 in the transaction consideration. In assessing the modification to a binding arrangement, Housing evaluates paragraph 28(b) of [draft] IPSAS [X] (ED 72) and concludes (on the basis of the factors in paragraph 30 of [draft] IPSAS [X] (ED 72)) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on

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

IE46. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 22(b) of [draft] IPSAS [X] (ED 72)). Housing updates its measure of progress and estimates that Public Works has satisfied 52.9 per cent of its modified performance obligation, based on an updated quantity surveyor's report. Housing recognizes additional expenses of CU114,150 [(52.9 per cent complete × CU1,350,000 modified transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Example 9 Unapproved Change in Scope and Price

IE47. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct an office building for a Not-for-Profit Organization (the Organization, the third-party beneficiary) on land owned by the Organization. The binding arrangement states that Public Works will complete the building within one year of inception of the binding arrangement. However, Public Works was not able to complete the building until 15 months after inception of the binding arrangement because of storm damage to the building that occurred part way through the construction. The binding arrangement specifically identifies any delay (including force majeure) in Public Works' delivery of the building to the Organization as an event that entitles Housing to compensation that is equal to actual costs incurred in providing alternative office accommodation to the Organization as a direct result of the delay. Housing is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the binding arrangement and prepares a claim. Public Works initially disagrees with the claim.

IE48. Housing assesses the legal basis of the claim and determines, on the basis of the underlying terms of the binding arrangement, that it has enforceable rights. Consequently, it accounts for the claim as a modification to a binding arrangement in accordance with paragraphs 19–22 of [draft] IPSAS [X] (ED 72). The modification does not result in any additional goods or services being provided to the Organization. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, Housing accounts for the modification in accordance with paragraph 22(b) of [draft] IPSAS [X] (ED 72) by updating the transaction consideration and the measure of progress towards complete satisfaction of the performance obligation. Housing considers the constraint on estimates of variable consideration in paragraphs 55–57 of [draft] IPSAS [X] (ED 72) when estimating the transaction price.

Identifying Performance Obligations (Step 2)

IE49. Example 10 and Example 11 illustrate the requirements in paragraphs 23–31 of IPSAS [X] on identifying performance obligations.

Example 10 Goods and Services are not Distinct

Case A—Significant Integration Service

IE50. The Department of Health (the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to build a hospital for a Provincial Government (the Province, the third-party beneficiary). Public Works is

responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE51. The promised goods and services are capable of being distinct in accordance with paragraph 28(b) of [draft] IPSAS [X] (ED 72). That is, the Province can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works, or comparable construction entities, regularly provides many of these goods and services separately to other purchasers. In addition, the Province could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE52. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 28(b) of [draft] IPSAS [X] (ED 72) (on the basis of the factors in paragraph 30 of [draft] IPSAS [X] (ED 72)). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE53. Because both criteria in paragraph 28 of [draft] IPSAS [X] are not met, the goods and services are not distinct. The Department of Health accounts for all of the goods and services in the binding arrangement as a single performance obligation.

Case B—Significant Integration Service

IE54. An International Organization (the Organization, the transfer provider) enters into a binding arrangement with the Department of Research Sciences (the Department, the transfer recipient) that will result in the Department delivering multiple units of a highly complex, specialized road trains to a National Government (the Government, the third-party beneficiary). The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the Government, based on a custom design that is owned by the Organization and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE55. The Organization assesses the promises in the binding arrangement and determines that each of the promised train carts is capable of being distinct in accordance with paragraph 28(a) of [draft] IPSAS [X] (ED 72) because the local government can generate economic benefits or service potential from each train segment on its own. This is because each train cart can function independently of the other train carts.

IE56. The Organization observes that the nature of the Department’s promise is to establish and provide a service of producing the full complement of train carts for which the Organization has entered into a binding arrangement in accordance with the Organization’s specifications. The Organization considers that the Department is responsible for overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output) and, therefore, the train carts and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 28(b) and paragraph 30 of [draft] IPSAS [X]

(ED 72). In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Organization. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the train carts has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated. Because the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72) is not met, the goods and services that will be provided by the Department are not separately identifiable and, therefore, are not distinct. The Organization accounts for all of the goods and services promised by the Department in the binding arrangement as a single performance obligation.

Example 11 Determining whether Goods or Services are Distinct

Case A—Distinct Goods or Services

IE57. A state government office (State Government, the transfer provider) enters into a binding arrangement with a government shared IT services agency (the Agency, the transfer recipient) for the Agency to transfer software licenses, perform installation services and provide unspecified software updates and technical support (online and telephone) to public sector universities (the Universities, the third-party beneficiaries) for a two-year period. The Agency provides the licenses, installation services and technical support separately. The installation service includes changing the web screen for each type of user (for example, teaching, marketing and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE58. The State Government assesses the goods and services promised by the Agency to determine which goods and services are distinct in accordance with paragraph 28 of [draft] IPSAS [X] (ED 72). The State Government observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The Universities can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the State Government concludes that the Universities can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 28(a) of [draft] IPSAS [X] (ED 72) is met.

IE59. The State Government also considers the principle and the factors in paragraph 30 of [draft] IPSAS [X] (ED 72) and determines that the Agency's promise to transfer each good and service to the Universities is separately identifiable from each of the other promises (thus the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72) is met). In reaching this determination, the State Government considers that, although the Agency integrates the software into the Universities systems, the installation services do not significantly affect the Universities ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the Universities ability to use and benefit or receive service potential from the software license during the license period. The State Government further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the State Government concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency

would be able to fulfill its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE60. On the basis of this assessment, the State Government identifies four performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The software licenses;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE61. The State Government applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether each of the Agency's performance obligations for the installation services, software updates and technical support are satisfied at a point in time or over time. The State Government also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG74 of [draft] IPSAS [X] (ED 72) (see Example 26 in paragraphs IE147–IE148).

Case B—Significant Customization

IE62. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation services, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the Universities. The customized installation service can be provided by other entities.

IE63. The State Government assesses the goods and services promised by the Agency to determine which goods and services are distinct in accordance with paragraph 28 of [draft] IPSAS [X] (ED 72). The State Government first assesses whether the criterion in paragraph 28(a) has been met. For the same reasons as in Case A, the State Government determines that the software licenses, installations, software updates and technical support each meet that criterion. The State Government next assesses whether the criterion in paragraph 28(b) has been met by evaluating the principle and the factors in paragraph 30 of [draft] IPSAS [X] (ED 72). The State Government observes that the terms of the binding arrangement result in a promise by the Agency to provide a significant service of integrating the licensed software into the existing software systems by performing customized installation services as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation services as inputs to produce the combined output (i.e., functional and integrated software systems) specified in the binding arrangement (see paragraph 30(a) of [draft] IPSAS [X] (ED 72)). The software is significantly modified and customized by the service (see paragraph 30(b) of [draft] IPSAS [X] (ED 72)). Consequently, the State Government determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72) is not met. Thus, the software licenses and the customized installation services are not distinct.

IE64. On the basis of the same analysis as in Case A, the State Government concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE65. On the basis of this assessment, the State Government identifies three performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) Software customization (which comprises the licenses for the software and the customized installation services);

(b) Software updates; and

(c) Technical support.

IE66. The State Government applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether each of the Agency's performance obligations is satisfied at a point in time or over time.

Case C—Promises are Separately Identifiable (Installation)

IE67. A state government office (State Government, the transfer provider) enters into a binding arrangement with a shared IT services agency (the Agency, the transfer recipient) for the Agency to provide a piece of equipment and installation services to a public sector university (the University, the third-party beneficiary). The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE68. The State Government identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The State Government assesses the criteria in paragraph 28 of [draft] IPSAS [X] (ED 72) to determine whether each promised good or service is distinct. The State Government determines that the equipment and the installation each meet the criterion in paragraph 28(a) of [draft] IPSAS [X] (ED 72). The University can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The University also can generate economic benefits or service potential from the installation services together with other resources that the University will already have obtained from the Agency (i.e., the equipment).

IE69. The State Government further determines that the Agency's promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 28(b) of [draft] IPSAS [X] (ED 72)). The State Government considers the principle and the factors in paragraph 30 of [draft] IPSAS [X] (ED 72) in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 30 of [draft] IPSAS [X] (ED 72) contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to fulfill its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the University can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to fulfill its promise to transfer the equipment independently of its promise to provide the installation

services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE70. On the basis of this assessment, the State Government identifies two performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) Installation services.

IE71. The State Government applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether each performance obligation is satisfied at a point in time or over time.

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

IE72. Assume the same facts as in Case C, except that the State Government is required to ensure the University uses the Agency's installation services in the binding arrangement.

IE73. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to ensure the University uses the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 28(a) of [draft] IPSAS [X] (ED 72)) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable, i.e., they each meet the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72). The State Government's analysis in this regard is consistent with that in Case C.

Case E—Promises are Separately Identifiable (Consumables)

IE74. A state government office (State Government, the transfer provider) enters into a binding arrangement with a shared IT services agency (the Agency, the transfer recipient) for the Agency to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) to a public sector university (the University, the third-party beneficiary) and to provide specialized consumables to the University for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE75. The State Government determines that the University can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 29 of [draft] IPSAS [X] (ED 72), because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The University can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement together with the delivered equipment that is transferred to the University initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 28(a) of [draft] IPSAS [X] (ED 72).

IE76. The State Government determines that the Agency's promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 28(b) of [draft] IPSAS [X] (ED 72). In determining that the equipment and the

consumables are not inputs to a combined item in this binding arrangement, the State Government considers that the Agency is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the State Government concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the University can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to fulfill each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to fulfill its promise to transfer the equipment even if the State Government did not purchase any consumables for the University and would be able to fulfill its promise to provide the consumables, even if the State Government acquired the equipment for the University separately.

IE77. On the basis of this assessment, the State Government identifies two performance obligations of the Agency in the binding arrangement for the following goods or services:

(a) The equipment; and

(b) The consumables.

IE78. The State Government applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether each performance obligation is satisfied at a point in time or over time.

Performance Obligations Satisfied Over Time (Step 5)

IE79. Example 12–Example 14 illustrate the requirements in paragraphs 35–37 and AG39–AG40 of IPSAS [X] (ED 72) on performance obligations satisfied over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 35(a) and AG39–AG40 of IPSAS [X] (ED 72) on when a purchaser simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 12 and Example 13); and

(b) Paragraphs 35(c), 36–37 and AG42–AG48 of IPSAS [X] (ED 72) on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to payment for performance completed to date (Example 13 and Example 14).

Example 12 Third-Party Beneficiary Simultaneously Receives and Consumes the Economic Benefits or Service Potential

IE80. A local government's Department of Education (the Department, the transfer provider) enters into a binding arrangement with a public payroll service center (the Payroll Center, the transfer recipient) for the Payroll Center to provide monthly payroll processing services to the schools in the local government area (the Schools, the third-party beneficiaries) for one year.

IE81. The promised payroll processing services are accounted for as a single performance obligation in accordance with paragraph 23(b) of [draft] IPSAS [X] (ED 72). The performance obligation is satisfied over time in accordance with paragraph 35(a) of [draft] IPSAS [X] (ED 72) because the Schools simultaneously receive and consume the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction

is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Schools simultaneously receive and consume the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. (The Department disregards any practical limitations on transferring the remaining performance obligation, including setup activities that would need to be undertaken by another entity.) The Department recognizes expenses over time by measuring the Payroll Center's progress towards complete satisfaction of that performance obligation in accordance with paragraphs 39–45 and AG49–AG51 of [draft] IPSAS [X] (ED 72).

Example 13 Assessing Alternative Use and Right to Payment

IE82. An international organization (the Organization, the transfer provider) enters into a binding arrangement with the Office of the Auditor General (the Auditor, the transfer recipient) for the Auditor to provide financial statement audit services to a national government (the Government, the third-party-beneficiary) that result in the Auditor providing an audit opinion to the Government. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Government. If the Organization were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Organization to compensate the Auditor for its costs incurred.

IE83. The Organization considers the criterion in paragraph 35(a) of [draft] IPSAS [X] (ED 72) and the requirements in paragraphs AG39 and AG40 of [draft] IPSAS [X] (ED 72) to determine whether the Government simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its obligation and the Organization hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Government will generate economic benefits or service potential of the Auditor's performance only when the Government receives the audit opinion. Consequently, the Organization concludes that the criterion in paragraph 35(a) of [draft] IPSAS [X] (ED 72) is not met.

IE84. However, the Auditor's performance obligation meets the criterion in paragraph 35(c) of [draft] IPSAS [X] (ED 72) and is a performance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 36 and AG42–AG44 of [draft] IPSAS [X] (ED 72), the development of the audit opinion does not create an asset with alternative use to the Auditor because the audit opinion relates to facts and circumstances that are specific to the Government. Therefore, Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 37 and AG45–AG48 of [draft] IPSAS [X] (ED 72), the Auditor has an enforceable right to payment for its performance completed to date.

IE85. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the performance obligation in accordance with paragraphs 39–45 and AG49–AG51 of [draft] IPSAS [X].

Example 14 Asset has no Alternative Use to the Transfer Recipient

IE86. The Department of Sciences (the Department, the transfer provider) enters into a binding arrangement with a supplier (the transfer recipient) to build a specialized piece of medical research

equipment for a university (the third-party beneficiary). The supplier builds medical research equipment for various purchasers, such as government agencies and departments and commercial entities. The design and construction of each piece of medical research equipment differ substantially, on the basis of each purchaser's needs and the type of technology that is incorporated into the equipment.

IE87. At the inception of the binding arrangement, the Department assesses whether the supplier's performance obligation to build the medical research equipment is a performance obligation satisfied over time in accordance with paragraph 35 of [draft] IPSAS [X] (ED 72).

IE88. As part of that assessment, the Department considers whether the medical research equipment in its completed state will have an alternative use to the supplier. Although the binding arrangement does not preclude the supplier from directing the completed medical research equipment to another purchaser, the supplier would incur significant costs to rework the design and function of the equipment to direct that asset to another purchaser. Consequently, the asset has no alternative use to the supplier (see paragraphs 35(c), 36 and AG42–AG44 of [draft] IPSAS [X] (ED 72) because the purchaser-specific design of the medical research equipment limits the supplier's practical ability to readily direct the equipment to another purchaser.

IE89. For the supplier's performance obligation to be satisfied over time when building the medical research equipment, paragraph 35(c)of [draft] IPSAS [X] (ED 72) also requires the supplier to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

IE90. Example 15 illustrates the requirements in paragraphs 39–45 of IPSAS [X] on measuring progress towards complete satisfaction of a performance obligation satisfied over time.

Example 15 Measuring Progress when the Transfer Recipient is Making Goods or Services Available

IE91. A local government (the transfer provider) enters into a binding arrangement with a sports facility (the transfer recipient) that owns and manages a public swimming pool to allow children under 12 years of age (the third-party beneficiaries) to access to the pool free of charge. The children have unlimited use of the pool. The local government promises to pay CU15,000 per month.

IE92. The local government determines that the sports facility's promise is to provide a service of making the pool available for the children to use as and when the children wish. This is because the extent to which the children use the pool does not affect the amount of the remaining goods and services to which the children are entitled. The local government concludes that the children simultaneously receive and consume the benefits or service potential of the sports facility's performance as it performs by making the pools available. Consequently, the sports facility's performance obligation is satisfied over time in accordance with paragraph 35(a) of [draft] IPSAS [X] (ED 72).

IE93. The local government also determines that the children consume economic benefits or service potential from the sports facility making the pool available throughout the year. (That is, the children benefit from having the pools available, regardless of whether the children use it or not.) Consequently, the local government concludes that the best measure of progress towards complete satisfaction of the sports facility's performance obligation over time is a time-based measure and it recognizes expenses on a straight-line basis throughout the year at CU15,000 per month.

Variable Consideration

IE94. Example 16 and Example 17 illustrate the requirements in paragraphs 50–54 of IPSAS [X] (ED 72) on identifying variable consideration.

Example 16 Penalty Gives Rise to Variable Consideration

IE95. The Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a highway construction company (the transfer recipient) to build a highway for a provincial government (the third-party beneficiary) for CU10 million. In addition, the terms of the binding arrangement include a penalty of CU1 million if the construction is not completed within three months of a date specified in the binding arrangement.

IE96. Public Works concludes that the consideration promised in the binding arrangement includes a fixed amount of CU10 million and a variable amount of CU1 million (arising from the penalty).

IE97. Public Works estimates the variable consideration in accordance with paragraphs 50–54 of [draft] IPSAS [X] (ED 72) and considers the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration.

Example 17 Estimating Variable Consideration

IE98. The Department of Transportation (Transportation, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) a to build a bridge for a local government (the third-party beneficiary). The promise by Public Works to transfer the bridge is a performance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE99. In addition, upon completion of the bridge, an independent inspector will assess the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE100. In determining the transaction consideration, Transportation prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 53 of [draft] IPSAS [X] (ED 72):

IE101. Transportation decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Transportation expects to better predict the amount of consideration to which it will be entitled.

IE102. Transportation decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Transportation expects to better predict the amount of consideration to which it will be entitled.

IE103. Public Works considers the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction price.

Constraining Estimates of Variable Consideration

IE104. Example 18 illustrates the requirements in paragraphs 55–57 of IPSAS [X] (ED 72) on constraining the estimates of variable consideration.

Example 18 Volume Discount Incentive

IE105. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a private hospital (the Hospital, the transfer recipient) on January 1, 20X8 to provide medical examinations for refugees (the third-party beneficiaries) for CU100 per examination. If more than 10,000 examinations are performed in a calendar year, the binding arrangement specifies that the price per unit is retrospectively reduced to CU90 per unit. Consequently, the consideration in the binding arrangement is variable.

IE106. For the first quarter ended March 31, 20X8, the Hospital performs 750 examinations. The Organization estimates that the Hospital will not exceed the 10,000-examination threshold required for the volume discount in the calendar year.

IE107. The Organization considers the requirements in paragraphs 55–57 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration, including the factors in paragraph 56 of [draft] IPSAS [X] (ED 72). The Organization determines that it has significant experience with the medical examination and with the usage pattern of the refugees. Thus, the Organization concludes that it is probable that a significant reversal in the cumulative amount of expenses recognized (i.e., CU100 per unit) will not occur when the uncertainty is resolved (i.e., when the total amount of examinations is known). Consequently, the Organization recognizes expenses of CU75,000 (750 units × CU100 per unit) for the quarter ended March 31, 20X8.

IE108. In May 20X8, more refugees arrive in the country and in the second quarter ended June 30, 20X8 the Hospital performs an additional 5,000 examinations. In the light of the new fact, the Organization estimates that the number of examinations will exceed the 10,000-examination threshold for the calendar year and therefore the price per unit will be retrospectively reduced to CU90.

IE109. Consequently, the Organization recognizes expenses of CU442,500 for the quarter ended June 30, 20X8. That amount is calculated from CU450,000 for the sale of 5,000 units (5,000 units × CU90 per unit) less the change in transaction price of CU7,500 (750 units × CU10 price reduction) for the reduction of revenue relating to units provided for the quarter ended March 31, 20X8 (see paragraphs 85 and 86 of [draft] IPSAS [X] (ED 72).

The Existence of a Significant Financing Component in the Binding Arrangement

IE110. Example 19–Example 21 illustrate the requirements in paragraphs 59–64 of IPSAS [X] (ED 72) on the existence of a significant financing component in the binding arrangement.

Example 19 Withheld Payments on a Long-Term Binding Arrangement

IE111. A Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a construction company (the Company, the transfer recipient) for the Company to construct a building for a local government (the third-party beneficiary) that includes scheduled milestone payments for the performance by the Company throughout the binding arrangement term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Company's expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by

Public Works throughout the arrangement and paid to the Company only when the building is complete.

IE112. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with the Company's performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 61(c) of [draft] IPSAS [X] (ED 72). The withholding of a specified percentage of each milestone payment is intended to protect Public Works from the Company failing to adequately complete its obligations under the binding arrangement.

Example 20 Determining the Discount Rate

IE113. The Department of Communications and Information (the Department, the transfer provider) enters into a binding arrangement with a telecommunications company (Telcom, the transfer recipient) for Telcom to provide broadband internet equipment to a foreign government (the third-party beneficiary). Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU1 million plus a five per cent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU18,871.

Case A—Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE114. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five per cent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and Telcom at the inception of the binding arrangement (i.e., the rate of interest of five per cent in the binding arrangement reflects the credit characteristics of the Department).

IE115. The market terms of the financing mean that the cash price of the equipment is CU1 million. This amount is recognized as an expense and as a loan payable when control of the equipment transfers to the foreign country. The Department accounts for the payable in accordance with IPSAS 41, *Financial Instruments*.

Case B—Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE116. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five per cent rate of interest in the binding arrangement is significantly lower than the 12 per cent interest rate that would be used in a separate financing transaction between the Department and Telcom at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five per cent does not reflect the credit characteristics of the Department). This suggests that the cash price is less than CU1 million.

IE117. In accordance with paragraph 63 of [draft] IPSAS [X] (ED 72), the Department determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 per cent interest rate that reflects the credit characteristics of the Department. Consequently, the Department determines that the transaction consideration is CU848,357 (60 monthly payments of CU18,871 discounted at 12 per cent). The

Department recognizes an expense and a loan payable for that amount. The Department accounts for the loan payable in accordance with IPSAS 41.

Example 21 Advance Payment and Assessment of Discount Rate

IE118. A government agency (the Agency) will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the Agency plans to sell the surplus vehicles. To achieve this objective, the Agency (the transfer recipient) enters into a binding arrangement with a local government (the transfer provider) to provide a surplus vehicle to a not-for-profit organization (the Organization, the third-party beneficiary) in two years (i.e., the performance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU50,000 in two years when the Organization obtains control of the asset or payment of CU40,000 when the binding arrangement is signed. The local government elects to pay CU40,000 when the binding arrangement is signed.

IE119. The local government concludes that the binding arrangement contains a significant financing component because of the length of time between when the local government pays for the vehicle and when the Agency transfers the vehicles to the Organization, as well as the prevailing interest rates in the market.

IE120. The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the local government determines that, in accordance with paragraph 63 of [draft] IPSAS [X] (ED 72), the rate that should be used in adjusting the promised consideration is six per cent, which reflects the credit characteristics of the Agency.

IE121. The following journal entries illustrate how the national government would account for the significant financing component:

(a) Recognize a transfer provider's binding arrangement asset for the CU40,000 payment made at inception of the binding arrangement:

Transfer provider's binding arrangement asset	CU40,000	
Cash		CU40,000

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the local government adjusts the promised amount of consideration (in accordance with paragraph 64 of [draft] IPSAS [X] (ED 72) and accretes the binding arrangement asset by recognizing interest on CU40,000 at six per cent for two years:

Transfer provider's binding arrangement asset	CU4,940[3]	
Interest revenue		CU4,940

(c) Recognize an expense as the Agency transfers the asset:

[3] CU4,940 = CU40,000 transfer provider's binding arrangement asset × (6 per cent interest per year for two years) (rounded to the nearest CU10).

Expense	CU44,940	
Transfer provider's binding arrangement asset		CU44,940

Allocating the Transaction Consideration to Performance Obligations (Step 4)

IE122. Example 22 and Example 23 illustrate the requirements in paragraphs 71–84 of IPSAS [X] (ED 72) on allocating the transaction consideration to performance obligations.

Example 22 Allocation Methodology

IE123. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a vehicle manufacturer (the Manufacturer, the transfer recipient) to provide vehicles, specialized spare parts and specialized engines to a national government (the Government, the third-party beneficiary) in exchange for CU100 million. The Manufacturer will satisfy its performance obligations for each of the products at different points in time. The Manufacturer provides vehicles separately and therefore the stand-alone purchase price is directly observable. The stand-alone purchase prices of the specialized spare parts and specialized engines are not directly observable.

IE124. Because the stand-alone purchase prices for the specialized spare parts and specialized engines are not directly observable, the Organization must estimate them. To estimate the stand-alone purchase prices, the Organization uses the adjusted market assessment approach for the specialized spare parts and the specialized engines. In making those estimates, the Organization maximizes the use of observable inputs (in accordance with paragraph 76 of [draft] IPSAS [X]. The entity estimates the stand-alone prices as follows:

Product	**Stand-Alone Purchase Price (CU Millions)**	**Method**
Vehicles	90	Directly observable (see paragraph 75 of [draft] IPSAS [X] (ED 72))
Specialized Spare Parts	10	Adjusted market assessment approach (see paragraph 77(a) of [draft] IPSAS [X] (ED 72))
Specialized Engines	20	Adjusted market assessment approach (see paragraph 77(a) of [draft] IPSAS [X] (ED 72))
Total	120	

IE125. The Organization receives a discount for purchasing the bundle of goods because the sum of the stand-alone purchase prices (CU120 million) exceeds the transaction consideration (CU100 million). The Organization considers whether it has observable evidence about the Manufacturer's performance obligation to which the entire discount belongs (in accordance with paragraph 80 of [draft] IPSAS [X] (ED 72)) and concludes that it does not. Consequently, in accordance with paragraphs 74 and 79 of [draft] IPSAS [X] (ED 72), the discount is allocated proportionately across the vehicles, spare parts and the specialized engines. The discount, and therefore the transaction consideration, is allocated as follows:

Product	Allocated Transaction Consideration (CU Millions)	
Vehicles	75	(CU90 ÷ CU120 x CU100)
Specialized Spare Parts	8	(CU10 ÷ CU120 x CU100)
Specialized Engines	17	(CU20 ÷ CU120 x CU100)
Total	100	

Example 23 Allocating a Discount

IE126. A government procurement agency (the Agency, the transfer provider) regularly purchases common-use supplies, including Supplies A, B and C individually. The Agency establishes the following stand-alone prices:

Product	Stand-Alone Purchase Price (CU)
Supply A	40
Supply B	55
Supply C	45
Total	140

IE127. In addition, the Agency regularly acquires Supplies B and C together for CU60.

Case A—Allocating a Discount to One or More Performance Obligations

IE128. The Agency enters into a binding arrangement with a supplier (the Supplier, the transfer recipient) for the Supplier to provide Supplies A, B and C to a not-for-profit organization (the Organization, the third-party beneficiary) in exchange for CU100. The Supplier will satisfy the performance obligations for each of the supplies at different points in time.

IE129. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three of the Supplier's performance obligations when allocating the transaction consideration using the relative stand-alone purchase price method (in accordance with paragraph 79 of [draft] IPSAS [X] (ED 72). However, because the Agency regularly purchases Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the Supplier's promises to transfer Supplies B and C to the Organization in accordance with paragraph 80 of [draft] IPSAS [X] (ED 72).

IE130. If the Supplier transfers control of Supplies B and C to the Organization at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single performance obligation. That is, the Agency could allocate CU60 of the transaction consideration

to the single performance obligation and recognize an expense of CU60 when Supplies B and C simultaneously transfer to the Organization.

IE131. If the binding arrangement requires the Supplier to transfer control of Supplies B and C to the Organization at different points in time, then the allocated amount of CU60 is individually allocated to the Supplier's promises to transfer Supply B (stand-alone purchase price of CU55) and Supply C (stand-alone purchase price of CU45) to the Organization as follows:

Product	Stand-Alone Purchase Price (CU)	
Supply B	33	(CU55 ÷ CU100 total stand-alone price × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone price × CU60)
Total	60	

Case B—Residual Approach is Appropriate

IE132. The Agency enters into a binding arrangement with the Supplier for the Supplier to provide Products A, B and C to the Organization as described in Case A. The binding arrangement also includes a promise by the Supplier to transfer Product D to the Organization. Total consideration in the binding arrangement is CU130. The stand-alone purchase price for Product D is highly variable (see paragraph 77(b) of [draft] IPSAS [X]) because the Agency purchases Supply D from different suppliers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone purchase price of Product D using the residual approach.

IE133. Before estimating the stand-alone purchase price of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the Supplier's other performance obligations in the binding arrangement in accordance with paragraphs 80 and 81 of [draft] IPSAS [X] (ED 72).

IE134. As in Case A, because the Agency regularly purchases Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the Supplier's promises to transfer Supplies B and C to the Organization in accordance with paragraph 80 of [draft] IPSAS [X] (ED 72). Using the residual approach, the Agency estimates the stand-alone price of Supply D to be CU30 as follows:

Product	Stand-Alone Purchase Price (CU)	Method
Supply A	40	Directly observable (see paragraph 75 of [draft] IPSAS [X] (ED 72)
Supplies B and C	60	Directly observable with discount (see paragraph 80 of [draft] IPSAS [X] (ED 72)

Supply D	30	Residual approach (see paragraph 77(b) of [draft] IPSAS [X] (ED 72)
Total	120	

IE135. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable purchase prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 71 of [draft] IPSAS [X] (ED 72) and the requirements in paragraph 76 of [draft] IPSAS [X] (ED 72).

Case C—Residual Approach is Inappropriate

IE136. The same facts as in Case B apply to Case C except the transaction price is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone price of CU5 for Supply D (CU105 transaction price less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration which it expects to pay in exchange for the Supplier satisfying its performance obligation to transfer Supply D to the Organization, because CU5 does not approximate the stand-alone purchase price of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data to estimate the stand-alone price of Supply D using another suitable method. The Agency allocates the transaction price of CU105 to Supplies A, B, C and D using the relative stand-alone prices of those products in accordance with paragraphs 71–78 of [draft] IPSAS [X] (ED 72).

Purchaser Options for Additional Goods or Services

IE137. Example 24 illustrate the requirements in paragraphs AG58–AG62 of [draft] IPSAS [X] (ED 72) on purchaser options for additional goods or services.

Example 24 Option that Provides the Transfer Provider with a Material Right (Discount Voucher)

IE138. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a publisher (the Publisher, the transfer recipient) for the Publisher to provide copies of Textbook A to the all the universities in a country (the Universities, the third-party beneficiaries) for CU100 per copy. As part of the binding arrangement, the Publisher gives the Organization a 40 per cent discount voucher for any future purchases of Textbook B (which would normally cost CU50) in the next 30 days. The Publisher has already announced an offer of a 10 per cent discount on all sales during the next 30 days as part of a promotion. The 10 per cent discount cannot be used in addition to the 40 per cent discount voucher.

IE139. Because all purchasers will receive a 10 per cent discount on purchases during the next 30 days, the only discount that provides the Organization with a material right is the discount that is incremental to that 10 per cent (i.e., the additional 30 per cent discount). The Organization accounts for the Publisher's promise to provide the incremental discount as a performance obligation of the Publisher in the binding arrangement for the sale of Textbook A.

IE140. To estimate the stand-alone purchase price of the discount voucher in accordance with paragraph AG61 of [draft] IPSAS [X] (ED 72), the Organization estimates an 80 per cent likelihood that it will redeem the voucher and provide Textbook B to all the Universities. Consequently, the entity's estimated stand-alone price of the discount voucher is CU12 per book (CU50 stand-alone purchase price of Textbook B × 30 per cent incremental discount × 80 per cent likelihood of

exercising the option). The stand-alone purchase prices of Textbook A and the discount voucher and the resulting allocation of the CU100 transaction consideration are as follows:

Performance Obligation	**Stand-Alone Purchase Price (CU)**	
Textbook A	100	
Discount Voucher	12	
Total	112	
	Allocated Transaction Price (CU)	
Textbook A	89	(CU100 ÷ CU112 × CU100)
Discount Voucher	11	(CU12 ÷ CU112 × CU100)
Total	100	

IE141. The Organization allocates CU89 to Textbook A and recognizes an expense for Textbook A as the Publisher transfers the textbooks to the Universities. The Organization allocates CU11 to the discount voucher and recognizes an expense for the voucher when it redeems it for Textbook B or when it expires.

Non-refundable Upfront Fees

IE142. Example 25 illustrates the requirements in paragraphs AG66–AG68 of [draft] IPSAS [X] (ED 72) on non-refundable upfront fees.

Example 25 Non-refundable Upfront Fee

IE143. A provincial government (the Province, the transfer provider) enters into a binding arrangement with a leisure facility (the Facility, the transfer recipient) for the Facility to provide one year of access to its swimming pool for students at the local university (the Students, the third-party beneficiaries). The Facility's binding arrangements have standard terms that are the same for all group arrangements. The binding arrangement requires the customer to pay an upfront administration fee to set up eligible individuals (in this case the Students) on the Facility's systems. The fee is a nominal amount per individual and is non-refundable. The Province can renew the binding arrangement each year without paying an additional fee for Students who continue to study at the university.

IE144. The Facility's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a transfer recipient's performance obligation.

IE145. The Province concludes that the renewal option does not provide it with a material right that it would not receive without entering into that binding arrangement (see paragraph AG59 of [draft] IPSAS [X] (ED 72)). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Province determines the transaction consideration, which includes the

non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG67 of [draft] IPSAS [X] (ED 72).

Licensing

IE146. Example 26–Example 28 illustrate the requirements in paragraphs 23–31 of [draft] IPSAS [X] (ED 72) for identifying performance obligations and paragraphs AG69–AG82 of [draft] IPSAS [X] (ED 72) on licensing.

Example 26 Right to Use Intellectual Property

IE147. Using the same facts as Case A of Example 11 (see paragraphs IE57–IE78), the State Government identifies four performance obligations of the Agency in a binding arrangement:

(a) The software license;

(b) Installation services;

(c) Software updates; and

(d) Technical support.

IE148. The State Government assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG74 of [draft] IPSAS [X] (ED 72). The State Government does not consider in its assessment of the criteria in paragraph AG74 of [draft] IPSAS [X] (ED 72) the Agency's promise to provide software updates, because they result in the transfer of an additional good or service to the Universities (the third-party beneficiaries in Example 11) (see paragraph AG74(c) of [draft] IPSAS [X] (ED 72)). The State Government also observes that the Agency does not have any implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the license period. The State Government observes that the software remains functional without the updates and the technical support and, therefore, the ability of the Universities to obtain the economic benefits or service potential of the software is not substantially derived from, or dependent on, the Agency's ongoing activities. The State Government therefore determines that the binding arrangement does not require, and it does not reasonably expect, the Agency to undertake activities that significantly affect the software (independent of the updates and technical support). The State Government concludes that the software to which the license relates has significant stand-alone functionality and none of the criteria in paragraph AG74 of [draft] IPSAS [X] (ED 72) are met. The State Government further concludes that the nature of the Agency's promise in transferring the license to the Universities is to provide a right to use the Agency's intellectual property as it exists at a point in time. Consequently, the State Government accounts for the license as a performance obligation satisfied at a point in time.

Example 27 License of Intellectual Property

IE149. The Department of Culture (the Department, the transfer provider) enters into a binding arrangement with a government film library (the Library, the transfer recipient) for the library to license (for a period of three years) a collection of films to a museum (the Museum, the third-part beneficiary) for display in an exhibition. The binding arrangement also specifies that the Museum will obtain any new films added to the collection by the Library during the licensing period. The updates are integral to the Museum's ability to generate economic benefits or service potential from the license during the license period, because the films relate to historical events which are considered relevant to current cultural views and public discourse.

IE150. The Department assesses the goods and services promised by the Library to the Museum to determine which goods and services are distinct in accordance with paragraph 28 of [draft] IPSAS [X] (ED 72). The Department determines that the Museum can generate economic benefits or service potential from (a) the license on its own without the addition of the new films; and (b) the addition of the new films together with the initial license. Although the economic benefits or service potential that the Museum could obtain from the license on its own (i.e., without the additional films) is limited because the updates are integral to the Museum's ability to continue to attract significantly more visitors, the license can be used in a way that generates some economic benefits or service potential. Therefore, the criterion in paragraph 28(a) of [draft] IPSAS [X] (ED 72) is met for the license and the addition of new films.

IE151. The fact that the economic benefits or service potential that the Museum could obtain from the license on its own (i.e., without the addition of the new films) is limited (because the addition of the new films are integral to the Museum's ability to attract more visitors) is also considered in assessing whether the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72) is met. Because the economic benefits or service potential that the Museum could obtain from the license over the three-year term without the additions would be significantly limited, the Library's promises to grant the license and to provide the expected additions are, in effect, inputs that together fulfill a single promise of the Library to deliver a combined item to the Museum. That is, the nature of the Library's promise in the binding arrangement is to provide ongoing access to the Library's film collection for the three-year term of the binding arrangement. The promises within that combined item (i.e., to grant the license and to provide new films when-and-if-available) are, therefore, not separately identifiable in accordance with the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72).

IE152. The nature of the combined good or service that the Library promised to transfer to the Museum is ongoing access to the Library's film collection for the three-year term of the binding arrangement. On the basis of this conclusion, the Department applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether single the Library's performance obligation is satisfied at a point in time or over time. The Department concludes that because the Museum simultaneously receives and consumes the economic benefits or service potential of the Library's performance as it occurs, the Library's performance obligation is satisfied over time in accordance with paragraph 35(a) of [draft] IPSAS [X] (ED 72).

Example 28 Identifying a Distinct License

IE153. An international organization (the Organization, the transfer provider) enters into a binding arrangement with a university research facility (the Facility, the transfer recipient) to license the Facility's patent rights to a laser surgery technology to a hospital in a developing country (the Hospital, the third-party beneficiary) for 10 years. The Facility also promises to manufacture the technology for the Hospital. Laser surgery technology in general is mature; therefore, the Facility will not undertake any activities to support the technology, which is consistent with its customary practices.

Case A—License is Not Distinct

IE154. In this case, no other entity can manufacture this technology because of the highly specialized nature of the manufacturing process. As a result, the license cannot be purchased separately from the manufacturing services.

IE155. The Organization assesses the goods and services promised to the clinic to determine which goods and services are distinct in accordance with paragraph 28 of [draft] IPSAS [X] (ED 72). The Organization determines that the Hospital cannot generate economic benefits or service potential from the license without the manufacturing service; therefore, the criterion in paragraph 28(a) of [draft] IPSAS [X] (ED 72) is not met. Consequently, the license and the manufacturing service are not distinct and the Organization accounts for the license and the manufacturing service as a single performance obligation.

IE156. The Organization applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether the performance obligation (i.e., the bundle of the license and the manufacturing services) is a performance obligation satisfied at a point in time or over time.

Case B—License is Distinct

IE157. In this case, the manufacturing process used to produce the laser surgery technology is not unique or specialized and several other entities can also manufacture the technology for the Hospital.

IE158. The Organization assesses the goods and services promised to the Hospital to determine which goods and services are distinct, and it concludes that the criteria in paragraph 28 of [draft] IPSAS [X] (ED 72) are met for each of the license and the manufacturing service. The Organization concludes that the criterion in paragraph 28(a) of [draft] IPSAS [X] (ED 72) is met because the Hospital can generate economic benefits or service potential from the license together with readily available resources other than the Facility's manufacturing service (because there are other entities that can provide the manufacturing service), and can generate economic benefits or service potential from the manufacturing service together with the license transferred to the Hospital at the start of the binding arrangement.

IE159. The Organization also concludes that the Facility's promises to grant the license and to provide the manufacturing service are separately identifiable (i.e., the criterion in paragraph 28(b) of [draft] IPSAS [X] (ED 72) is met). The Organization concludes that the license and the manufacturing service are not inputs to a combined item in this binding arrangement on the basis of the principle and the factors in paragraph 28 of [draft] IPSAS [X] (ED 72). In reaching this conclusion, the Organization considers that the Hospital could separately purchase the license without significantly affecting its ability to generate economic benefits or service potential from the license. Neither the license, nor the manufacturing service, is significantly modified or customized by the other and the Facility is not providing a significant service of integrating those items into a combined output. The Organization further considers that the license and the manufacturing service are not highly interdependent or highly interrelated because the Facility would be able to fulfill its promise to transfer the license independently of fulfilling its promise to subsequently manufacture the laser for the Hospital. Similarly, the Facility would be able to manufacture the laser for the Hospital even if the Hospital had previously obtained the license and initially utilized a different manufacturer. Thus, although the manufacturing service necessarily depends on the license in this contract (i.e., the Facility would not provide the manufacturing service without the clinic having obtained the license), the license and the manufacturing service do not significantly affect each other. Consequently, the Organization concludes that its promises to grant the license and to provide the manufacturing service are distinct and that there are two transfer recipient's performance obligations:

(a) License of patent rights; and

(b) Manufacturing service.

IE160. The Organization assesses, in accordance with paragraph AG74 of [draft] IPSAS [X] (ED 72), the nature of the Facility's promise to grant the license. The laser technology is a mature product (i.e., it has been approved, is currently being manufactured and has been provided at a surplus for the last several years). For these types of mature products, the Facility's customary practices are not to undertake any activities to support the laser technology. The technology has significant stand-alone functionality (i.e., its ability to be used in a way that treats a disease or condition). Consequently, the Hospital obtains a substantial portion of the economic benefits or service potential of the laser technology from that functionality, rather than from the Facility's ongoing activities. The Organization concludes that the criteria in paragraph AG74 of [draft] IPSAS [X] (ED 72) are not met because the binding arrangement does not require, and the binding arrangement does not reasonably expect, the Facility to undertake activities that significantly affect the intellectual property to which the Hospital has rights. In its assessment of the criteria in paragraph AG74 of [draft] IPSAS [X] (ED 72), the Organization does not take into consideration the Facility's separate performance obligation of promising to provide a manufacturing service. Consequently, the nature of the Facility's promise in transferring the license is to provide a right to use the Facility's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the clinic. Consequently, the Organization accounts for the license as a performance obligation satisfied at a point in time.

IE161. The Facility applies paragraphs 32–38 of [draft] IPSAS [X] (ED 72) to determine whether the manufacturing service is a performance obligation satisfied at a point in time or over time.

Bill-and-Hold Arrangements

IE162. Example 29 illustrates the requirements in paragraphs AG83–AG86 of [draft] IPSAS [X] (ED 72) on bill-and-hold arrangements.

Example 29 Bill-and-Hold Arrangement

IE163. An education department (the Department, the transfer provider) enters into a binding arrangement with a publisher (the Publisher, the transfer recipient) on January 1, 20X8 for the Publisher to provide two consignments of textbooks to a not-for-profit education charity (the Charity, the third-party beneficiary), each relating to a different educational symposium for disadvantaged children. The publishing lead time for the textbooks is one year.

IE164. Upon completion of textbooks, the Publisher demonstrates that the textbooks meet the agreed-upon specifications in the binding arrangement. The Publisher's promises to transfer the two consignments of textbooks are distinct and result in two performance obligations that each will be satisfied at a point in time. On December 31, 20X8, the Department pays for both consignments of textbooks, but only the first consignment of textbooks is physically transferred to the Charity, as the symposium relating to the second consignment is not scheduled to occur for another two years. Although the Charity inspects and accepts the second consignment of textbooks, the Department requests that the second consignment be stored at the Publisher's warehouse for two years due to better security at their premises. The Charity has legal title to the second consignment of textbooks and the textbooks can be identified as belonging to the Charity. Furthermore, the Publisher stores the second consignment of textbooks in a separate section of its warehouse and the textbooks are ready for immediate shipment at the Charity's request. The Publisher expects to hold the second consignment of textbooks for up to two years and the Publisher does not have the ability to use the second consignment of textbooks or direct them to another purchaser.

IE165. The Department identifies the Publisher's promise to provide custodial services as a performance obligation because it is a service provided to the Charity and it is distinct from the two consignments of textbooks. Consequently, the Department accounts for three performance obligations in the binding arrangement (the Publisher's promises to provide the two consignments of textbooks and the custodial services). The transaction consideration is allocated to the three performance obligations and expenses are recognized when (or as) control transfers to the Charity.

IE166. Control of the first consignment of textbooks transfers to the Charity on December 31, 20X8 when the Charity takes physical possession. The Department assesses the indicators in paragraph 38 of [draft] IPSAS [X] (ED 72) to determine the point in time at which control of the second consignment of textbooks transfers to the Charity, noting that the Publisher has received payment, the Charity has legal title to the second consignment of textbooks, and the Charity has inspected and accepted the second consignment. In addition, the Department concludes that all of the criteria in paragraph AG85 of [draft] IPSAS [X] (ED 72) are met, which is necessary for the Department to recognize an expense in a bill-and-hold arrangement. The Department recognizes an expense for the second consignment of textbooks on December 31, 20X8 when control transfers to the Charity.

IE167. The Publisher's performance obligation to provide custodial services is satisfied over time as the services are provided to the Charity. The Department considers whether the payment terms include a significant financing component in accordance with paragraphs 59–64 of [draft] IPSAS [X] (ED 72).

Transfer Expenses without Performance Obligations

Recognition and Measurement

IE168. Example 30–Example 35 illustrate the requirements in paragraphs 90–115 of [draft] IPSAS [X] (ED 72) on the recognition and measurement of transfer expenses without performance obligations. Example 36 illustrates the requirements of paragraphs AG101–AG108 of [draft] IPSAS [X] (ED 72).

Example 30 Transfer of Resources to Another Level of Government for General Purposes

IE169. A national government (the transfer provider) makes a transfer of CU10 million to a local government in a socioeconomically deprived area. The local government (the transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. The are no enforceable activities or eligible expenditure requirements imposed on the local government by the transfer.

IE170. The transfer does not confer enforceable rights and obligations on both parties to the agreement, and therefore is not a binding arrangement as defined in [draft] IPSAS [X] (ED 70). In the absence of a binding arrangement, the national government recognizes an expense when it transfers the CU10 million to the local government in accordance with paragraph 92 of [draft] IPSAS [X] (ED 72).

Example 31 Transfer of Resources with with an Enforceable Activity and/or Eligible Expenditure

IE171. A national government (the transfer provider) enters into an agreement with a social housing entity (the transfer recipient) to make a cash transfer of CU50 million to the social housing entity. The agreement specifies that the social housing entity must:

(a) Increase the stock of social housing by an additional 1,000 units over and above any other planned increases; or

(b) Use the cash transfer in other ways to support its social housing objectives.

If neither of these requirements is satisfied, the social housing entity must return the cash to the national government.

IE172. The agreement requires the social housing entity to either undertake an enforceable activity (increase the social housing stock) or incur eligible expenditure (use the cash transfer to support social housing objectives) as defined in [draft] IPSAS [X} (ED 71). The transfer agreement confers enforceable rights and obligations on both parties to the agreement, and a binding arrangement as defined in [draft] IPSAS [X] (ED 70).

IE173. Consequently, the national government recognizes an expense at the earlier of the point at which it has a present obligation to transfer the CU50 million or the point at which it transfers the CU50 million, in accordance with paragraph 90 of [draft] IPSAS [X] (ED 72). The national government does not recognize an asset for the possible return of the funds, as this is not a resource currently controlled by the national government. Any return of the funds is conditional on a future event, the future non-compliance with the terms of the binding arrangement by the provincial government.

Example 32 Transfer to Another Level of Government with Specific Requirements

IE174. The national government (the transfer provider) enters into an agreement with a provincial government (the transfer recipient) to transfer CU10 million to the provincial government to be used to improve and maintain mass transit systems. Specifically, the provincial government is required to use the money as follows:

(a) 40 percent for existing railroad and tramway system modernization;

(b) 40 percent for new railroad or tramway systems; and

(c) 20 percent for rolling stock purchases and improvements.

IE175. Under the terms of the agreement, the money must be spent as specified in the current year or be returned to the national government.

IE176. The agreement is a binding arrangement that imposes requirements on the provincial government to undertake enforceable activities and incur eligible expenditure, as defined in [draft] IPSAS [X] (ED 71). Consequently, the national government recognizes an expense at the earlier of the point at which it has a present obligation to transfer the CU10 million or the point at which it transfers the CU10 million, in accordance with paragraph 90 of [draft] IPSAS [X] (ED 72). The national government does not recognize an asset for the possible return of the funds, as this is not a resource currently controlled by the national government. Any return of the funds is conditional on a future event, the future non-compliance with the terms of the binding arrangement by the provincial government.

Example 33 Debt Forgiveness

IE177. The national government (the transfer provider) had previously lent a local government (the transfer recipient) CU20 million. The loan was provided to enable the local government to build a water treatment plant. The national government has accounted for the loan in accordance with IPSAS 41.

IE178. After a change in policy, the national government decides to forgive the loan. There are no requirements attached to the forgiveness of the loan. The national government writes to the local

government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE179. In accordance with paragraphs 94 and 115 of [draft] IPSAS [X} (ED 72), the national government recognizes an expense at the point it waives the loan, and measures the expense at the carrying amount of the loan (measured in accordance with IPSAS 41). The national government applies IPSAS 41 to derecognize the loan.

Example 34 Agreement for a Series of Transfers

IE180. A regional government (the transfer provider) enters into a binding arrangement with a museum on January 1, 20X1, whereby the regional government will provide CU100,000 per year for three years for the museum to purchase additional artefacts.

Case A—Future Payments Dependent on Performance

IE181. The binding arrangement requires the regional government to transfer CU100,000 to the museum on January 31,20X1. The binding agreement also requires the regional government to transfer CU100,000 to the museum on January 31, 20X2 and January 31, 20X3 provided that the museum has acquired the artefacts in the previous year.

IE182. On January 31, 20X1, the regional government reviews the binding arrangement, and concludes that it has a present obligation for the CU100,000 due on January 31, 20X1. It recognizes an expense at that point in accordance with paragraph 96 of [draft] IPSAS [X] (ED 72). The regional government also concludes that it does not have a present obligation for the remaining payments at that point, as these are conditional on the future performance of the museum. Consequently, in accordance with paragraph 96 of [draft] IPSAS [X] (ED 72), the regional government does not recognize an expense for those payments as at January 31, 20X1, but will recognize expenses in future when the obligations to may the payments become present obligations (or when if makes the future payments, if this is earlier).

Case B—Future Payments Due in All Circumstances

IE183. The binding arrangement requires the regional government to transfer CU100,000 to the museum on January 31,20X. The binding agreement also requires the regional government to transfer CU100,000 to the museum on January 31, 20X2 and January 31, 20X3. The binding arrangement requires the regional government to make the future payments irrespective of whether the museum has acquired the intended artefacts or not.

IE184. On January 31, 20X1, the regional government reviews the binding arrangement, and concludes that it has a present obligation for all three payments of CU100,000 as at January 31, 20X1, as the regional government is unable to avoid an outflow of resources. It recognizes an expense for CU300,000 at that point, in accordance with paragraph 96 of [draft] IPSAS [X] (ED 72).

Example 35 Agreement for Transfers Subject to Approval of Appropriations

IE185. A national government has a financial year end of December 31. On December 15, 20X2, the national government (the transfer provider) enters into a binding arrangement with a local government (the transfer recipient) to transfer CU5 million to the local government, to be used to reduce air pollution, in accordance with the national government's policy.

IE186. The binding arrangement includes a term that it is subject to an appropriation being approved. In determining the effect of the term that the binding arrangement is subject to an appropriation being

approved, the national government considers substance over form, in accordance with paragraphs 97–98 and AG96–AG100.

Case A—Appropriation is in Substance a Limitation

IE187. Legislation requires the national government to have an approved appropriation for all expenditure prior to the expenditure being incurred. Incurring expenditure prior to approval being given is unlawful, and disciplinary action may be taken against ministers or officials who incur expenditure without an approved appropriation.

IE188. The national government concludes that it is prohibited from transferring the CU5 million unless and until the appropriation is approved. Consequently, the limitation (that the transfer is subject to the appropriation being approved) has substance and, in accordance with paragraphs 97–98 and AG96–AG100, the national government does not recognize a liability and an expense as at December 15, 20X2. As at December 31, 20X2, its financial year end, the appropriation has not been approved, and the national government considers whether to disclose the binding arrangement as a contingent liability (see Example 41).

IE189. On January 15, 20X3, the Parliament approves the appropriation. At this date, the national government applies paragraphs 90–96 in determining when to recognize an expense.

Case B—Appropriation is not in Substance a Limitation

IE190. Legislation gives the national government wide discretionary powers to provide transfers to lower levels of government. While the legislation requires the national government to seek confirmation of such transfers by means of an appropriation, the national government is permitted to transfer funds prior to the appropriation being approved. The approval of the appropriation by the Parliament is seen as a formality, and does not impact the national government's spending decisions.

IE191. The national government concludes that it is not prohibited from transferring the CU5 million prior to the appropriation being approved. Consequently, the limitation (that the transfer is subject to the appropriation being approved) does not have substance. As at December 15, 20X2, the national government applies paragraphs 90–96 in determining when to recognize an expense.

Example 36 Taxes Paid and Payable

Case A—Property Taxes Levied Progressively

IE192. A national government (the transfer provider) has an annual reporting period that ends on December 31. In accordance with legislation, a property tax (payable to a municipality, the transfer recipient) is triggered progressively as an entity occupies property in 20X1. The amount of the property tax is calculated by reference to the value of the property and the number of days the property is occupied by the national government in 20X1.

IE193. The liability is recognized progressively during 20X1 as the national government occupies the property, because the obligating event, as identified by the legislation, is the number of days the property is occupied during 20X1. At any point in 20X1, the national government has a present obligation to pay the property tax on the number of days it has occupied the property to date. The national government has no present obligation to pay a property tax that will arise from occupying the property in the future.

Case B—A Tax is Triggered in Full as Soon as the Entity Incurs Expenditure on Alcohol

IE194. A university (the transfer provider), which operates a bar, has an annual reporting period that ends on December 31. In accordance with legislation, a tax (payable to the national government, the transfer recipient) is triggered in full as soon as an entity incurs expenditure on alcohol in 20X1. The amount of the tax is calculated by reference to the expenditure on alcohol incurred by the entity in 20X0. The university incurred expenditure on alcohol in 20X0 and in 20X1 starts to incur expenditure on alcohol on January 3, 20X1.

IE195. The liability is recognized in full on January 3, 20X1 because the obligating event, as identified by the legislation, is the first incurring of expenditure in 20X1. The incurring of expenditure in 20X0 is necessary, but not sufficient, to create a present obligation to pay the tax. Before January 3, 20X1, the university has no present obligation to pay the tax. In other words, the activity that triggers the payment of the tax, as identified by the legislation, is the point at which the university first incurs expenditure on alcohol in 20X1. The incurring of expenditure on alcohol in 20X0 is not the activity that triggers the payment of the tax and the recognition of the liability. The amount of expenditure on alcohol incurred in 20X0 only affects the measurement of the liability.

Case C—A Tax is Triggered in Full if the Entity Operates a Landfill Facility at a Specified Date

IE196. A local government (the transfer provider) has an annual reporting period that ends on December 31. In accordance with legislation, a tax (payable to the national government, the transfer recipient) is triggered in full only if an entity operates a landfill facility at the end of the annual reporting period. The amount of the levy is calculated by reference to the amounts in the statement of financial position of the entity at the end of the annual reporting period. The local government's annual reporting period ends on December 31, 20X1.

IE197. The liability is recognized on December 31, 20X1 because the obligating event, as identified by the legislation, is the local government operating a landfill facility at the end of the annual reporting period. Before that point, the local government has no present obligation to pay the tax, even if it is compelled, economically or by legislation, to continue to operate a landfill facility in the future. In other words, the activity that triggers the payment of the tax, as identified by the legislation, is the entity operating a landfill facility at the end of the annual reporting period, which does not occur until December 31, 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is the local government operating a landfill facility at the end of the annual reporting period.

Case D—A Tax is Triggered if the Entity Generates Revenue above a Minimum Amount of Revenue

IE198. A university (the transfer provider) has an annual reporting period that ends on December 31. In accordance with legislation, a tax (payable to the Department of Education) is triggered if a university generates revenue above CU50 million in 20X1. The Department's policy is to support smaller universities by not charging the tax on revenue below CU50 million. The amount of the tax is calculated by reference to revenue generated above CU50 million, with the tax rate at 0 percent for the first CU50 million revenue generated (below the threshold) and 2 percent above CU50 million revenue. The university's revenue reaches the revenue threshold of CU50 million on July 17 20X1.

IE199. In this example, the liability is recognized between July 17, 20X1 and December 31, 20X1 as the university generates revenue above the threshold because the obligating event, as identified by the

legislation, is the activity undertaken after the threshold is reached (i.e., the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of CU50 million revenue.

Case E—A Tax is Triggered if the Entity Generates Revenue above a Minimum Amount of Revenue: Variation

IE200. The same fact pattern as in Case D (i.e., a levy is triggered if the university generates revenue above CU50 million in 20X1) applies, except that the amount of the levy is calculated by reference to all revenue generated by the university in 20X1 (i.e., including the first CU50 million revenue generated in 20X1).

IE201. In this example, the liability for the payment of the levy related to the first CU50 million revenue is recognized on July 17, 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognized between July 17, 20X1 and December 31, 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (i.e., the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date, including the first CU50 million revenue.

Presentation

IE202. Example 37 and Example 38 illustrate the requirements in paragraphs 120–124 of [draft] IPSAS [X] (ED 72) on the presentation of binding arrangement balances under the public sector performance obligation approach.

Example 37 Transfer Provider's Binding Arrangement Asset

Case A—Cancellable Binding Arrangement

IE203. On January 1, 20X9, a government procurement agency (the Agency, the transfer provider) enters into a binding arrangement that is cancellable with a supplier (the Supplier, the transfer recipient) to transfer a product to a local government (the third-party beneficiary) on March 31, 20X9. The binding arrangement requires Agency to pay consideration of CU1,000 in advance on January 31, 20X9. The Agency pays the consideration on March 1, 20X9. The Supplier transfers the product on March 31, 20X9. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The Agency pays cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Transfer provider's binding arrangement asset	CU1,000	
Cash		CU1,000

(b) The Agency satisfies the performance obligation on March 31, 20X9:

Expense	CU1,000	
Transfer provider's binding arrangement asset		CU1,000

Case B—Non-Cancellable Binding Arrangement

IE204. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a payable because it has a present obligation to make the payment and the Supplier has an unconditional right to consideration):

Transfer provider's binding arrangement asset	CU1,000	
Payable		CU1,000

(b) The Agency pays the cash on March 1, 20X9:

Payable	CU1,000	
Cash		CU1,000

(c) The Agency satisfies the performance obligation on March 31, 20X9:

Expense	CU1,000	
Transfer provider's binding arrangement asset		CU1,000

IE205. If the Agency received the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the transfer provider's binding arrangement asset and the payable on a gross basis in the statement of financial position because the Agency does not at that point have a present obligation.

Example 38 Transfer Provider's Binding Arrangement Liability Recognized for the Transfer Recipient's Performance

IE206. On January 1, 20X8, a government education department (Education, the transfer provider) enters into a binding arrangement with an IT supplier (the Supplier, the transfer recipient) for the supplier to transfer computer software and configuration services to a small government department (the Department, the third-party beneficiary) in exchange for CU1,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000 is due only after the Supplier has transferred both the software and configuration services to the Department. Consequently, Education does not have a present obligation (a payable) until the software is transferred to the Department and configured.

IE207. Education identifies the Supplier's promises to transfer the software and complete the configuration as separate performance obligations and allocates CU400 to the performance obligation to transfer the software and CU600 to the performance obligation to complete the configuration on the basis of their relative stand-alone prices. Education recognizes an expense for each respective performance obligation when control of the product transfers to the Department.

(a) The Supplier satisfies the performance obligation to transfer the software:

Expense	CU400	
Transfer provider's binding arrangement liability		CU400

(b) The Supplier satisfies the performance obligation to configure the software. The Supplier has the unconditional right to consideration, and Education has a present obligation to make payment:

Expense	CU600	
Transfer provider's binding arrangement liability	CU400	
Payable		CU1,000

Disclosure

Transfer Expenses with Performance Obligations

IE208. Example 39 and Example 40 illustrate the requirements in paragraphs 132–135 of [draft] IPSAS [X] (ED 72) for the disclosure of transaction consideration allocated to the remaining transfer recipient's performance obligations under the public sector performance obligation approach. In addition, the requirements of paragraph 56 of [draft] IPSAS [X] (ED 72) on constraining estimates of variable consideration are illustrated in Example 39:

Example 39 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations

IE209. On June 30, 20X7, a centralized training agency (the Agency, the transfer provider) enters into three binding arrangements (Binding Arrangements A, B and C) with a training company (the Company, the transfer recipient) for the Company to provide training services to three not-for-profit organizations (Organizations X, Y and Z, the third-party beneficiaries). Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 132–133 of [draft] IPSAS [X] (ED 72) in determining the information in each binding arrangement to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

Binding Arrangement A

IE210. The Company provides training services to Organization X over the next two years typically at least once per month. For services provided, the Agency pays an hourly rate of CU25. The Agency estimates that the Company provides an average of eight hours of training per month, and the total transaction consideration is based on this estimate. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using an output method (the number of hours of training received by Organization X.

IE211. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The information for Binding Arrangement A included in the overall disclosure is as follows:

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement A as of 31 December 20X7	2,400[4]	1,200[5]	3,600

Binding Arrangement B

IE212. Training services are to be provided by the Company to Organization Y as and when needed with a maximum of four visits per month over the next two years. The Agency pays a fixed price of CU400 per month for both services. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using a time-based measure.

IE213. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement B as of 31 December 20X7	4,800[6]	2,400[7]	7,200

Binding Arrangement C

IE214. Training services are to be provided by the Company to Organization Z as and when needed over the next two years. The Agency pays fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of Organization Z's employees (i.e., a performance bonus). The Agency estimates that the Company will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 56 of [draft] IPSAS [X] (ED 72), the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is probable that a significant reversal in the amount of cumulative expenses recognized will not occur. The Agency measures the Company's progress towards complete satisfaction of the performance obligation using a time-based measure.

IE215. The Agency discloses the amount of the transaction consideration that has not yet been recognized as an expense in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as an expense. The Agency also includes a qualitative discussion about any

[4] 8 hours training per month x CU25/hour x 12 months

[5] 8 hours training per month x CU25/hour x 6 months

[6] CU400 x 12 months

[7] CU400 x 6 months

significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

	20X8 CU	20X9 CU	Total CU
Expenses expected to be incurred on Binding Arrangement C as of 31 December 20X7	1,575[8]	788[9]	2,363

IE216. In addition, in accordance with paragraph 135 of [draft] IPSAS [X] (ED 72), the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration.

Example 40 Disclosure of the Transaction Consideration Allocated to the Transfer Recipient's Remaining Performance Obligations—Qualitative Disclosure

IE217. On January 1, 20X2, the Department of Public Works (Public Works, the transfer provider) enters into a binding arrangement with a State-Owned Enterprise (SOE, the transfer recipient) to refurbish a building for a local authority school (the School, the third-party beneficiary) for fixed consideration of CU10 million. The refurbishment of the building is considered a single performance obligation that SOE satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of expenses. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE218. At 31 December 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as an expense in its disclosure of the transaction consideration allocated to SOE's remaining performance obligations. Public Works also discloses an explanation of when it expects to recognize that amount as an expense. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining transfer recipient's performance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of the expense recognition, the entity discloses this information qualitatively as follows:

'As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to SOE's remaining performance obligation is CU6.8 million and the entity will recognize this as an expense as the building is completed, which is expected to occur over the next 12–18 months.'

Transfer Expenses without Performance Obligations

Example 41 Disclosure of a Transfer Expense Subject to Appropriations

IE219. The facts are the same as in Case A of Example 35. The national government does not recognize a liability or an expense as at December 31, 20X2. Rather, the national government considers

[8] Transaction price = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

[9] CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year)

whether it should disclose a contingent liability, in accordance with paragraph 100 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE220. The national government concludes that the probability of any outflow in settlement of the contingent liability is greater than remote. Consequently, the national government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2:

On December 15, 20X2, the national government entered into a binding arrangement to transfer CU5 million to a local government. The binding arrangement requires the local government to use the funds to reduce air pollution. The binding arrangement made it clear that the transfer was subject to an appropriation being approved, as legislation does not permit the national government to incur expenditure without an appropriation. The national government has not recognized a liability or an expense in respect of the binding arrangement because, as of December 31, 20X2, the appropriation had not been approved, and therefore the national government did not have a present obligation to transfer the funds to the local government. The appropriation was approved on January 15, 20X3, and the national government will transfer the CU5 million during 20X3.

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