IPSASB International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 6**	For: ☒ Approval ☒ Discussion ☒ Information
Meeting Location:	Abu Dhabi, United Arab Emirates		
Meeting Date:	December 10–13, 2019		

REVENUE WITH PERFORMANCE OBLIGATIONS (ED 70)

Project summary	The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS. The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede guidance currently located in IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.	
Meeting objectives **Project management**	***Topic***	***Agenda Item***
	Revenue with Performance Obligations (ED 70): Project Roadmap	6.1.1
	Instructions up to Previous Meeting	6.1.2
	Decisions up to Previous Meeting	6.1.3
Decisions required at this meeting	Themes (ED 70)	6.2.1
	Summary of Changes to Exposure Draft 70, *Revenue with Performance Obligations*, since June 2019	6.2.2
	Clarification of the Accounting for and Disclosures of Compelled Transactions where Collectability is not Probable	6.2.3
	Approval of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*	6.2.4
Other supporting items	[draft] ED 70, *Revenue with Performance Obligations*	6.3.1

Prepared by: Edwin Ng (November 2019)

REVENUE WITH PERFORMANCE OBLIGATIONS (ED 70): PROJECT ROADMAP

Meeting	**Completed Actions or Discussions / Planned Actions or Discussions:**
March 2015	1. Approve Project Brief
June 2016	1. Discussion of the performance obligation approach with the Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018	1. Review Responses to the Consultation Paper
June 2018	1. Review Responses to the Consultation Paper
September 2018	1. Review Responses to the Consultation Paper
December 2018	1. Review Responses to the Consultation Paper
March 2019	1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft
June 2019	1. Preliminarily approve updates to the core text and authoritative guidance of the Exposure Draft
December 2019	1. Approve Exposure Draft
March 2020	1. None Planned
June 2020	1. None Planned
September 2020	1. None Planned
December 2020	1. Review Responses 2. Discuss Issues
March 2021	1. Review Responses 2. Discuss Issues
June 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
September 2021	1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2019	1. Remove the proposed footnote regarding the definition of Fair Value in the exposure draft.	1. ED 70.BC30
June 2019	1. Explain, in the Basis for Conclusions, the IPSASB's decision to retain paragraph 8(e) with a potential requirement for additional disclosures to be considered with all other presentation and disclosure issues.	1. ED 70.BC32 to BC38
June 2019	2. Prepare a Basis for Conclusions paragraph that explains the IPSASB's decision to retain the term "Transaction price".	2. ED 70.BC30
June 2019	3. Consider the need for Application Guidance, an additional example, and Basis for Conclusions paragraphs on "Stand-alone price," as well as replacement of the terms "sell" and "sold" with "provide" and "provided".	3. ED 70.BC20 and BC57
June 2019	4. Reconsider whether to modify Illustrative Example 7.	4. ED 70.BC60
June 2019	5. Retain example 63 and solicit input from Board members on real-life examples.	5. ED 70.BC60
June 2019	6. Consider if the Illustrative Examples on contract costs in IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts, should be incorporated into ED 70.	6. ED 70.BC62
June 2019	7. Consider including a Basis for Conclusions paragraph that explains Illustrative Examples are not authoritative, and that core commercial transactions are illustrated in IFRS 15, *Revenue from Contracts with Customers.*	7. ED 70.BC61
June 2019	8. Work on the Illustrative Examples that will be presented to the IPSASB in the December 2019 meeting.	8. ED 70.BC60 to BC62
June 2019	9. Mark up changes to the Basis for Conclusions and present them to the IPSASB in the December 2019 meeting.	9. ED 70.BC60 to BC62

June 2019	10. Include a Basis for Conclusions paragraph that explains the approach the IPSASB has taken in determining which examples should be brought over from IFRS 15 and which additional examples should be included.	10. ED 70.BC60
June 2019	11. If changes to the examples are recommended by the Task Force, include the draft changes with the recommendations.	11. ED 70.BC60
June 2019	1. Develop a disclosure where collection of consideration is not probable by an entity compelled by legislation to enter a binding arrangement and present it along with all disclosures at the September 2019 IPSASB meeting;	1. ED 70.BC46
June 2019	2. Reconsider whether changes are required to paragraphs 14 and 15, and/or application guidance is needed, as a result of the decision to retain paragraph 8(e).	2. ED 70.BC39 to BC40
June 2019	3. Review ED 70 for consistent and appropriate use of the term “third-party beneficiary”.	3. ED 70.BC24
June 2019	4. Confirm the definition of “third-party beneficiary” and ensure that it is consistent in ED 70, *Revenue with Performance Obligations* (ED 70), ED 71, *Revenue without Performance Obligations* (ED 71), and ED 72, *Transfer Expenses* (ED 72).	4. ED 70.BC24
June 2019	5. Review ED 70 for consistent and appropriate use of the terms “stand-alone price,” “provide,” and “provided”.	5. ED 70.BC20
June 2019	6. Reinstate the term “distinct”.	6. ED 70.BC30

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2019	1. The IPSASB agreed with the following staff recommendation on disclosures: • There is no public sector reason to remove any IFRS 15 disclosure requirements; • The addition of a paragraph regarding materiality and aggregation; and • The addition of the disclosure requirements for compelled transactions where collectability is not probable.	1. ED 70.BC44 to BC46
June 2019	1. The IPSASB agreed to the revised objective paragraphs including the five-step approach to revenue recognition.	1. ED 70.BC14
June 2019	2. The IPSASB agreed to retain paragraph 8(e) with a requirement for additional disclosures where collection of consideration is not probable.	2. ED 70.BC32 to BC38. and BC46
June 2019	3. The IPSASB agreed to retain the terms and definitions of “binding arrangement asset” and “binding arrangement liability”.	3. ED 70.BC22
June 2019	4. The IPSASB agreed to: • Include the definition of “third-party beneficiary” and add “third-party beneficiary” to “purchaser” in the appropriate contexts; • Not define “counterparty”; • Retain the term and definition of “transaction price”; and • Retain the term “distinct”.	4. ED 70.BC23, BC30
June 2019	5. The IPSASB agreed to: • Replace the term “stand-alone selling price” with the term “stand-alone price”; • Replace the terms “sell” and “sold” with the terms “provide” and “provided”.	5. ED 70.BC20
June 2019	6. The IPSASB agreed to: • Retain or modify most of the IFRS 15 examples as they illustrate the application of different parts of ED 70; • Include additional examples regarding scope, hybrid (ED 70 and ED 71) transactions, enforceability by mechanisms other than legal means, and three-party arrangements.	6. ED 70.BC60

March 2019	1. After a page-by-page review, the IPSASB gave preliminary approval for the core text and authoritative guidance of the draft Exposure Draft (ED), subject to further review by the Task Force and the Technical Director prior to the June 2019 meeting, and any further changes identified as necessary during development of the examples.	1. ED 70.BC9 to BC12
March 2019	2. The Board decided to change the title of the ED 70, *Revenue from Binding Arrangements with Purchasers* and adopt the working title, *Revenue from Performance Obligations*.	2. ED 70.BC13
March 2019	3. The Board decided to amend the scope of the ED 70 to clarify that the scope of ED 70 applies to binding arrangements with purchasers that include performance obligations.	3. ED 70.BC15 to BC18
March 2019	4. The Board replaced the example of non-monetary exchanges between entities in the same line of business to facilitate sales to potential customers of oil and milk with electricity, because it is more suitable to the public sector.	4. ED 70.BC19
March 2019	5. The Board decided to add revenue transactions without performance obligations that are in the scope of IPSAS 23, *Revenue from Non-exchange transactions (Taxes and Transfers)* and transactions in the scope of IPSAS 40, *Public Sector Combinations* as additional scope exclusions in the ED 70.	5. ED 70.BC4, BC15
March 2019	6. The Board decided to retain the definition of the term, "revenue" in IPSAS 1, *Presentation of Financial Statements* in the ED 70.	6. ED 70.BC25
March 2019	7. The Board decided to retain the definition of the term, "customer" in the ED 70.	7. ED 70.BC23
March 2019	8. The Board decided to modify the definition of purchaser in the ED 70 so that it mirrors the definition in the Grants and Transfers – Expense Project.	8. ED 70.BC23
March 2019	9. The Board decided to replace the term, “customary business practices” with the term, "entity's customary practices".	9. ED 70.BC20
March 2019	10. The Board decided to replace the term, “industry" with the term, "sector".	10. ED 70.BC20
March 2019	11. The Board decided to replace the term, “commercial objective" with the term, "objective" rather than “economic objective” because "economic objective", could have a different connotation for the public sector; and	11. ED 70.BC28

March 2019	12. The Board decided to amend certain paragraphs in ED 70 that are based on the latest guidance on leases in IFRS 16, *Leases* to align ED 70 to requirements on leases in IPSAS 13, *Leases*.	12. ED 70.BC12
December 2018	1. The Board decided to approve the scope of the draft Standard.	1. ED 70.BC15
December 2018	2. The Board decided to replace the term, "Customer" with the broader term, "Purchaser".	2. ED 70.BC23
December 2018	3. The Board decided to complement the definition of a binding arrangement by specifying criteria that must be met before an entity can apply the revenue recognition model to that binding arrangement.	3. ED 70.BC21
December 2018	4. The Board decided to retain the performance obligation concept used in IFRS 15 for revenue transactions to decide which would be within the scope of ED 70.	4. ED 70.BC32
September 2018	1. The Board decided to accept the proposed "Amendments to Other IPSAS".	1. ED 70.BC12
September 2018	2. The Board decided to replace "commercial substance" with "economic substance".	2. ED 70.BC27
September 2018	3. The Board decided to remove the term, "ordinary" and explore the scope to identify whether items such as gains on sale of property, plant and equipment, foreign exchange gains, and interest are within the scope of the draft Standard.	3. ED 70.BC26
September 2018	4. The Board decided to retain the methods used to estimate stand-alone selling price and add explanatory text, stating that, where appropriate, the Expected Cost plus Margin approach is also applicable to goods and services that are provided on a cost-recovery basis.	4. ED 70.BC41 to BC43
September 2018	5. The Board decided to retain the terms, "Goods and Services".	5. ED 70.BC30
September 2018	6. The Board decided to retain the terms, "Consideration" and "Exchange".	6. ED 70.BC30
September 2018	7. The Board decided to replace the terms, "Contract Asset" and "Contract Liability" with the terms "Binding Arrangement Asset" and "Binding Arrangement Liability".	7. ED 70.BC22
September 2018	8. The Board decided to use the term, "Binding Arrangement", which will encompass the terms, "Contract" and "Other Binding Arrangements".	8. ED 70.BC21

June 2018	1. The Board decided that, in dealing with Category C revenue transactions, there are no major public sector issues that warrant departure, after considering the alignment with IFRS 15, *Revenue from Contracts with Customers*.	1. ED 70.BC6 to BC8
June 2018	2. The Board decided to retain the term "Fair Value" until the project on Public Sector Measurement is concluded.	2. ED 70.BC30
June 2018	3. The Board decided to approve the terminology changes, and, with some clarifications, the definitions.	3. ED 70.BC20 to BC31
June 2018	4. The Board decided to proceed with the PSPOA for appropriate transactions that were classified as Category B in the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*.	4. ED 70.BC5 to BC8
March 2018	1. The Board decided to progress with a convergence project on IFRS 15, *Revenue from Contracts with Customers.*	1. ED 70.BC3
June 2017	1. All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*.	1. See Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses.*

Themes (ED 70)

Purpose

1. To provide the Board with an overview of where issues raised in the in-period review related to ED 70 are addressed.

Detail

2. As part of the in-period review Staff received over 400 comments across ED 70, ED 71 and ED 72.

3. 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 relate to ED 70:

#	Theme	ED Impacted	Issues Paper
01	Transfer Revenue with Performance Obligations and Transfer Revenue	Cross Cutting	Agenda Item 5.2.3
02	Disclosures	Cross Cutting	Agenda Item 5.2.4
03	Biding Arrangements	Cross Cutting	Agenda Item 5.2.5
04	Examples / Editorials (Including BCs)	Cross Cutting	Agenda Item 5.2.6

Summary of Changes to Exposure Draft 70, *Revenue with Performance Obligations*, since November 6, 2019

Question

1. Does the IPSASB agree with the Staff's proposed changes to [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*?

Detail

2. The Staff formally presented the IPSASB with a draft of ED 70 at the June 2019 meeting. Since then, the Staff had presented a summary of the significant changes to the ED in September 2019 as part of a high-level project update, but a revised ED was not formally presented. A draft version of ED 70 was provided to IPSASB members, technical advisors and observers on November 6, 2019 and is included in Agenda Item 5.3.2. The current version of ED 70 is attached for the IPSASB's consideration for approval in Agenda Item 6.3.1.

3. To facilitate the IPSASB's review, the following paper summarizes and explains the changes made to ED 70 since the November in-period review. The main body of the paper focuses on substantive changes made as a result of feedback from the review. Editorial and other minor changes made since the in-period review are listed in Appendix A of this paper.

Substantive Changes Proposed as a Result of the November In-Period Review:

4. **Paragraph 120, AG32, BC32 – BC38, and BC46 – Accounting and disclosure of certain compelled transactions:** See Agenda Item 6.2.3.

5. **Paragraphs AG70 and AG71 and BC55 – Accounting for "hybrid" transactions:** As instructed by the IPSASB, these paragraphs were added to provide application guidance on "hybrid" revenue transactions within the scope of ED 70 which also have one or more components within the scope of ED 71. Based on comments received from the November in-period review, the Staff revised the wording in AG70 and AG71 to clarify the criterion used to separate the components of a transaction into components which are within the scope of ED 70 and ED 71. Paragraph BC55 was also revised to provide more details on the analysis and considerations which led to the IPSASB's decision;

6. **Paragraph AG92 – Determination of stand-alone price:** As instructed by the IPSASB, the Staff developed guidance on the determination of stand-alone price when there are no observable exit values for a performance obligation. In addition, Example 38 was also developed to illustrate this guidance. Based on feedback from the November in-period review, the Staff revised the wording in paragraph AG92 so that when the stand-alone price cannot be estimated from market information, the entity will estimate the stand-alone price using the expected cost approach, as described in paragraph 78(b) of ED 70, rather than using an estimate of replacement cost;

7. **Paragraphs AG142 and AG143 – Subsequent measurement of receivables:** Based on feedback from the in-period review, the receivables guidance previously drafted by Staff in response to an instruction from the IPSASB was simplified. A respondent provided more clear and concise wording to arrive at the same accounting outcome, and corresponding changes were made to the explanation of the application guidance in BC59. The receivables guidance in ED 71 has also been amended for consistency purposes.

Decision Required

8. Does the IPSASB agree with the Staff recommendations?

Appendix A – Editorial or Minor Changes Proposed After the September 2019 IPSASB Meeting (The Following Changes were not Discussed with the Task Force in Detail.)

1. **Paragraph 7 – Formally defined "control of an asset":** Prior to the change, the term "control of an asset" was defined in paragraph 32 of ED 70 as, "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."

2. "Control of an asset" is used in ED 71, *Revenue Without Performance Obligations*, and ED 72, *Transfer Expenses*. As a result, the Staff formally defined this term in paragraph 7 to facilitate incorporation of the definition by reference in ED 71 and ED 72. Other than the move from paragraph 32 to paragraph 7, no changes were made to the text of the definition;

3. **Paragraphs 131 and 141 – Effective date and transition:** Text was added to paragraph 131 to require the application of ED 71 and ED 72 upon application of ED 70. In addition, text was added to paragraph 141 to clarify that IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*, are applicable until the application of ED 70;

4. **AG21 – Reduction in future funding as an enforcement mechanism:** Text was added to clarify when a reduction in future funding can be viewed as a valid enforcement mechanism.

5. **Paragraphs BC3, BC17, BC18, BC25, BC26, BC37, BC38, BC46, BC55, BC57, BC58 and BC59 – Basis for Conclusions:** Based on feedback from the November in-period review, a number of clarifications were made to the basis for conclusions paragraphs.

6. **Paragraphs IE1 – IE359 – Illustrative Examples:** Based on feedback from the November in-period review, the Staff also amended examples 1 and 38 to provide more information on the differentiation between transactions in the scope of ED 70 and those within the scope of ED 71.

Clarification of the Accounting for and Disclosures of Compelled Transactions where Collectability is not Probable

Question

1. Does the IPSASB agree with the Staff's proposed changes to the requirements in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, relating to compelled transactions where collectability is not probable?

Detail

2. In response to the IPSASB's decision to retain the collectability criterion in paragraph 8(e) of ED 70, the Staff added application guidance on compelled transactions where collectability is not probable in paragraph AG32. Also as instructed by the IPSASB, paragraph 120 was added to require the disclosure of certain qualitative and quantitative information regarding compelled transactions where collectability is not probable. These proposals were presented to the IPSASB in September 2019.

3. Subsequent to the meeting, a number of comments were raised in the November in-period review requesting Staff to clarify the application of 8(e) and AG32. In addition, some respondents noted that paragraph 120 appears to only apply to specific subset of compelled transactions where the collectability criterion was not met but a portion of consideration was received.

Paragraphs 8(e) and AG32

4. Staff initially noted in AG32 that when an entity is compelled to provide goods or services regardless of the purchaser's ability and intention to pay and accepts a lower amount of consideration, the entity has accepted an implicit price concession. The Staff clarified that once the implicit price concession has been identified, the lower transaction price is subjected to the collectability criterion in paragraph 8(e). The specific wording changes can be found in paragraph AG32 in the version of the ED 70 included in Agenda Item 6.3.1.

5. The Staff noted that application of paragraphs 8(e) and the revised AG32 will have four possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of ED 70 are applied:

   (a) Criterion 8(e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step revenue recognition model and no specific disclosures regarding compelled transactions are required. As required by paragraph 12, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 8.

   (b) Criterion 8(e) is met, but only after the transaction price has been reduced for the implicit price concession as noted in paragraph AG32 – In this scenario, the binding arrangement will be accounted for using the five-step revenue recognition model but at the reduced transaction price. Specific disclosures regarding compelled transactions will be required by the revised paragraph 120. (See paragraph 7 below.) Similar to the scenario in paragraph 5(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by

paragraph 12 to reassess if the binding arrangement continues to meet all the criteria in paragraph 8.

(c) Criterion 8(e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 13 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 8. Any consideration received is subject to the revenue recognition criteria in paragraphs 14 and 15. Specific disclosures regarding compelled transactions will be required by paragraph 120.

(d) Criterion 8(e) is not met, and no consideration has been collected – In this scenario, paragraph 13 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 8. Specific disclosures regarding compelled transactions will be required by paragraph 120.

Paragraph 120

6. Paragraph 120 initially only required additional disclosures of revenue recognized from the application of paragraphs 13 – 15 as well as amounts from these transactions that were not recognized as revenue.

7. Based on feedback from the November in-period review, the Staff noted that the initial drafting of paragraph 120 did not capture the transactions noted in paragraph 5(b) above. To address this oversight, the Staff propose to also require the disclosure of: 1) amounts recognized as revenue only after consideration of an implicit price concession from compelled transactions, and 2) the amount that was not recognized as revenue from, these transactions as it was considered an implicit price concession. The specific wording changes can be found in paragraph 120 in the version of the ED 70 included in Agenda Item 6.3.1.

Decision Required

8. Based on the above analysis, the Staff noted that all possible scenarios regarding collectability of compelled transactions are now addressed by the revised paragraphs 120 and AG32 of ED 70.

9. Does the IPSASB agree with the Staff recommendations?

Approval of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*

Purpose

1. The IPSASB is asked to approve [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations,* and to agree with the proposed exposure period.

Due Process

2. The IPSASB released its Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses,* on August 22, 2017. The exposure period closed January 15, 2018.

3. The IPSASB CAG discussed the significant issues raised to the Consultation Paper (CP) at its June 2018 and June 2019 meetings. The CAG provided input for the IPSASB to consider as part of its analysis.

4. The IPSASB performed an initial review of responses in March 2018 and provided Staff with direction in how to proceed. From June 2018 through September 2019 the IPSASB considered responses to the CP and developed three exposure drafts:

   (a) ED 70, Revenue with Performance Obligations;

   (b) ED 71, Revenue without Performance Obligations; and

   (c) ED 72, Transfer Expenses.

5. The Revenue Task Force held one face to face meetings and multiple teleconferences. The following was discussed:

   (a) Face to face meetings (September 2019)

      (i) Developed illustrative examples for ED 70.

   (b) Teleconferences (Throughout 2019)

      (i) Discussed significant issues and developed recommendations for the IPSASB to consider.

6. The IPSASB tentatively approved the authoratative text in June 2019, and performed an in-period review from November 6 to November 18, 2019, as a way to identified issues that needed to be addressed prior to the approval of the ED in December 2019.

Exposure Period

7. Staff proposes releasing the document at the end of February 2020. Staff recommends setting an August 31, 2020 deadline for comments to allow for a 6-month exposure period.

Decision required

The IPSASB is asked to:

- Confirm it is satisfied there are no additional issues to be discussed by the IPSASB at this time;
- Approve [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations, for comment; and
- Confirm an exposure period ending August 31, 2020.

[draft] ED 70, Revenue with Performance Obligations

Review Instructions

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

         c. Changes made to in-period review version of ED 70 are tracked.

      (ii) Paragraphs which have been added or amended since the In-Period Review are not shaded.

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 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?

Specific Matter for Comment 2:

Do you agree with the proposals as required in paragraph 120 for disclosure of information on transactions an entity was compelled to enter by legislation or other governmental policy decisions? If not, why not?

Specific Matter for Comment 3:

Do you agree with the IPSASB's proposed application guidance in paragraphs AG70 and AG71 on the accounting for transactions with components relating to both revenue with performance obligations and revenue without performance obligations? If not, why not?

[TO BE FURTHER DEVELOPED AT THE DECEMBER 2019 IPSASB MEETING]

…

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 performance obligations ~~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 goods, 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

    (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 or third-party beneficiary has legal title to the asset—legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity retains legal title solely as protection against the purchaser's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset—the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the 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 or third-party beneficiary has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the 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.

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

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

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.

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

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).

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.

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

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 and intention 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, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph AG32; and

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit price concession from the application of paragraph AG32.

Transaction Price Allocated to the Remaining Performance Obligations

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.

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.

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

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

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.

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

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

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.

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

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

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.**

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

Transition

133. For the purposes of the 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*.

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

(a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 136; or

(b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 138–140.

135. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 134(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

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

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

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

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

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

(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 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).

137. For any of the practical expedients in paragraph 136 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

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

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

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

(a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement that occur before the date of initial application.

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

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

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 9 and IPSAS 11; and

(b) An explanation of the reasons for significant changes identified.

Withdrawal of Other Standards

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

(a) IPSAS 9, *Revenue from Exchange Transactions;* and

(b) IPSAS 11, *Construction Contracts*.

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);

(i) Transactions with Components within the Scope of IPSAS [ED71#], *Revenue without Performance Obligations* (AG70-AG71);

(j) Warranties (paragraphs AG72-AG77);

(k) Principal Versus Agent Considerations (paragraphs AG78-AG86);

(l) Purchaser Options for Additional Goods or Services (paragraphs AG87-AG91);

(m) Determination of Stand-alone Price (AG92);

(n) Purchasers' Unexercised Rights (paragraphs AG93-AG96);

(o) Non-refundable Upfront Fees (and Some Related Costs) (paragraphs AG97-AG100);

(p) Licensing (paragraphs AG101-AG114);

(q) Licenses which do not Relate to the Use of Intellectual Property (paragraph AG115)

(r) Repurchase Agreements (paragraphs AG116-AG128);

(s) Consignment Arrangements (paragraphs AG129-AG130);

(t) Bill-and-Hold Arrangements (paragraphs AG131-AG134);

(u) Purchaser Acceptance (paragraphs AG135-AG138); and

(v) Disclosure of Disaggregated Revenue (paragraphs AG139-AG141).

(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) Distinct ~~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.

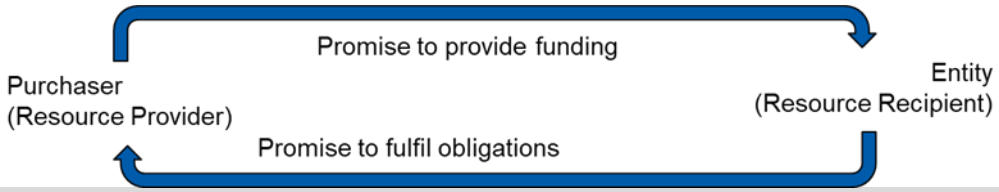
AG12. To be within the scope of this [draft] Standard the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG14 - AG25).

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.

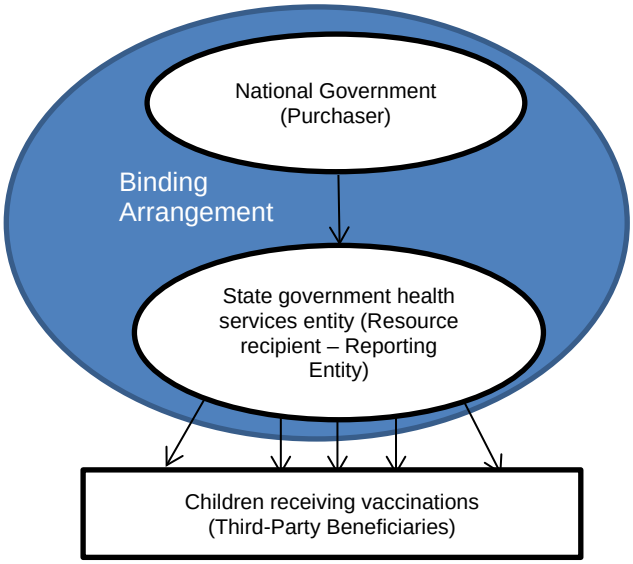
AG19. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard, however if the use of legislative authority 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, and the terms of this other binding arrangement specifically allows for a reduction in funding if other binding arrangements were breached,~~)~~ then ~~this~~ the reduction in funding 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.

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~~impairment losses. However, where an entity is providing goods or services and ~~expects to~~ accepts 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)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 8(e).

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

AG33. This [draft] Standard requires revenue to be recognized as or when a performance obligation is fulfilled.

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.

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*.

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.

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.

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

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).

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

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*.

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.

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)

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))

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.

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

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))

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.

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.

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))

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.

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.

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).

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.

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)

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

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.

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.

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

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.

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

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.

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.

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.

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.

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).

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.

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.~~ This [draft]

Standard typically requires a~~A~~n entity to ~~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.

AG71. 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. Such transactions may rebut the presumption that the transaction price is wholly related to the transfer of goods or services, as a portion of the consideration relates to helping the entity achieve its objectives. To demonstrate that t~~T~~his presumption is rebutted, ~~when~~ the terms of the binding arrangement must clearly specify that only a portion of the ~~transaction price~~ consideration received is to be returned to the purchaser in the event the entity does not deliver the promised goods or services, as this implies that the remaining consideration was paid to help the entity achieve its objectives. When~~re~~ 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

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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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.

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.

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

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.

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.

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.

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~~ purchaser 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, the entity will ~~an~~ estimate the stand-alone price using the expected cost approach, as noted in paragraph 78(b).~~of replacement cost will be used by the entity.~~

Purchasers' Unexercised Rights

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.

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.

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.

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)

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.

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.

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.

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

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.

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.

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).

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.

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

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).

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.

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).

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.

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).

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

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).

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

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

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.

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

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.

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

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).

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

A Put Option

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.

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.

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.

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.

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

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 agreement as if it were the sale of a product with a right of return as described in paragraphs AG62–AG69.

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

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

Consignment Arrangements

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.

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

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.

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.

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.

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

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.

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.

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.

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

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.

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.

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. After initial recognition, an entity shall subsequently measure a receivable:

(a) Within the scope of IPSAS 41, *Financial Instruments*, as a financial asset in accordance with IPSAS 41; or

(b) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.

~~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.~~

AG143. Where a ~~non-contractual~~ receivable as described in paragraph AG142(b) does not satisfy the requirements in paragraph 40 of IPSAS 41 ~~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

(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, the ~~The~~ 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, the ~~Thet~~The 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, the ~~Thet~~The 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, the ~~Thet~~The 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 ~~identifie~~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.

The IPSASB noted that the majority of respondents supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of restrictions or conditions in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice. 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), consistency with definitions and terminology in existing IPSAS, 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. This change was made as some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered "contracts".

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. While the IASB's educational materials referred to such three-party arrangements, they were not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in ~~introduced to~~ [draft] IPSAS [X] (ED 70), as ~~so that the Standard would apply to these~~ three-party transactions are expected to be much more prevalent in the public sector.

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 and Customer

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. To be consistent with IPSAS 1, *Presentation of Financial Statements*, the IPSASB decided not to adopt the IASB's definition of revenue. As a result, the definition of "revenue" in [Ddraft] IPSAS [X] (ED 70) is consistent with IPSAS 1 and does not refer to the term "income arising in the course of an entity's ordinary activities". and defines "revenue" to be consistent with IPSAS 1, *Presentation of Financial Statements*.

BC26. As the IASB's definition of "revenue" which refers to "ordinary activities" was not adopted, tThe IPSASB replaced the references to "ordinary activities" from in 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 the purchaser's ability or intention to pay~~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 or only considered probable after accepting a price concession as described in AG32 (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~~ accepts 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. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction price meets the collectability criterion in paragraph 8(e) and the entity applies the five-step revenue recognition model to the binding arrangement.

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 or only assessed as probable after accepting a price concession as noted in AG32, 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 for which revenue was not recognized.

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 only for the party to whom the obligation exists ~~on the promisor only~~, whereas a binding arrangement as used in [draft] IPSAS [X] (ED 70) requires both parties to agree to both 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 there is a presumption in ED 70 that all consideration received in a revenue binding arrangement relates entirely to the performance obligations within that arrangement. Because of this underlying presumption, in order to separate a portion of the consideration and account for it outside the scope of ED 70, there must be clear and objective evidence that a portion of the consideration received truly represents amounts that do not relate to performance obligations, which is the case when amounts are provided by a purchaser to help the entity achieve its objectives. The IPSASB considered the use of measurement-based criteria—e.g., allocating the consideration to performance obligations based on their standalone prices, then allocating the residual consideration to revenue within the scope of ED 71—but noted that unintended consequences may arise due to the subjective and entity-specific nature of standalone prices. The IPSASB decided that to clearly demonstrate that a portion of the consideration is not related to

performance obligations, the binding arrangement must state that if the entity does not satisfy its performance obligations to deliver goods or services, it is only required to return a specified portion of the consideration received. The remaining portion which the entity is not required to return would represent consideration received to help the entity achieve its objectives and would fall within the scope of ED 71.~~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, and ~~.—~~some may interpret the requirements on determination of stand-alone price to only consider amounts received directly from the party receiving the goods or services. 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~~using the expected cost approach.

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 analysis of such non-IP licenses should not be any different than the analysis of other revenue binding arrangements and 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.~~ already addressed by the principles carried over from IFRS 15. ~~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 highlighting that fact that the general principles apply to non-IP licenses. 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~~ receivables 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~~ receivables would result in ~~non-contractual receivables being~~ their initial~~ly~~ measurement ~~measured~~ at the transaction price, as the receivable is an offset of the amount of revenue recognized. To address the lack of guidance for subsequent measurement of these ~~non-contractual~~ receivables, the IPSASB added paragraphs AG142 – AG143, which are based on the subsequent measurement guidance found ~~for financial assets measured at amortized cost~~in IPSAS 41.

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~~ Because of the presence of the requirement to spend the funds in a specified time frame *and* a mechanism to measure and report progress to the government, the social development entity concludes 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

Case A – Arrangement Falls Within the Scope of [draft] IPSAS [X] (ED 70)

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.

Case B – Arrangement Falls Within the Scope of [draft] IPSAS [X] (ED 71)

IE213. Similar to Case A, the health clinic receives CU100,000 from the government. However, in this case, the funding was provided to the health for the purposes of running their vaccination program.

The terms of the binding arrangement specify that the clinic has discretion to spend the funds on expenditures that are directly related to the vaccination program and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as administration of the vaccines or the development of educational materials regarding vaccines; an allocation of rent for premises used to conduct these vaccination-related activities; and the acquisition cost of vaccinations themselves.

~~IE212.~~IE214. Because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals, the health clinic concludes that the arrangement is within the scope of [draft] IPSAS [X] (ED 71) and recognizes revenue as eligible expenditures are incurred or enforceable activities are completed.

Binding Arrangement Costs

~~IE213.~~IE215. 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.~~IE216. 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.~~IE217. 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.~~IE218. 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.~~IE219. 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.~~IE220. 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.~~IE221. 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.~~IE222. 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.~~IE223. 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.~~IE224. 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.~~IE225. 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.~~IE226. The Agency satisfies the performance obligation to transfer the software:

Binding Arrangement Asset	CU400,000		
Revenue		CU400,000	

~~IE225.~~IE227. 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.~~IE228. 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.~~IE229. 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.~~IE230. 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.~~IE231. 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.~~IE232. 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.

[9] CU 150 per examinations × 100 examinations

[10] CU 125 transaction price per examinations × 100 examinations

~~IE231.~~IE233. 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.~~IE234. 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.~~IE235. 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 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

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
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.~~IE236. 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.~~IE237. 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.~~IE238. 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.~~IE239. 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.~~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 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.~~IE241. 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 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.~~IE242. 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.~~IE243. 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.

[11] CU4,800 = CU400 × 12 months.

[12] CU2,400 = CU400 × 6 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 45—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations—Qualitative Disclosure

~~IE242.~~IE244. 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.~~IE245. 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.'

Example 46—Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

~~IE244.~~IE246. 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.~~IE247. 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.~~IE248. 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.~~IE249. 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.~~IE250. 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.~~IE251. 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.~~IE252. 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.~~IE253. 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.~~IE254. 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.~~IE255. 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.~~IE256. 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.~~IE257. 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.~~IE258. 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.~~IE259. 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.~~IE260. 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.~~IE261. 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.~~IE262. 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.~~IE263. 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.~~IE264. 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.~~IE265. 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.~~IE266. 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.~~IE267. 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.~~IE268. 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.~~IE269. 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.~~IE270. 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.~~IE271. 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.~~IE272. 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.~~IE273. 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.~~IE274. 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.~~IE275. 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.~~IE276. 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.~~IE277. 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.~~IE278. 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.~~IE279. 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.~~IE280. 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.~~IE281. 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.~~IE282. 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.~~IE283. 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.~~IE284. 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.~~IE285. 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.~~IE286. 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.~~IE287. 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.~~IE288. 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.~~IE289. 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.~~IE290. 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.~~IE291. 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.~~IE292. 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.~~IE293. 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.~~IE294. 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.~~IE295. 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.~~IE296. 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.~~IE297. 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.~~IE298. 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.~~IE299. 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.~~IE300. 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.~~IE301. 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.~~IE302. 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.~~IE303. 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.~~IE304. 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.~~IE305. 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.~~IE306. 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.~~IE307. 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.~~IE308. 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.~~IE309. 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.~~IE310. 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.~~IE311. 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.~~IE312. 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.~~IE313. 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.~~IE314. 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.~~IE315. 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.~~IE316. 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.~~IE317. 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.~~IE318. 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.~~IE319. 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.~~IE320. 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.~~IE321. 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.~~IE322. 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.~~IE323. 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.~~IE324. 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.~~IE325. 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.~~IE326. 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.~~IE327. 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.~~IE328. 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.~~IE329. In exchange for granting the license, the Facility receives a fixed payment of CU1 million in each year of the four-year term.

~~IE328.~~IE330. 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.~~IE331. 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.~~IE332. 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.~~IE333. 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.~~IE334. 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.~~IE335. 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.~~IE336. 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.~~IE337. 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.~~IE338. 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.~~IE339. 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.~~IE340. 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.~~IE341. 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.~~IE342. 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.~~IE343. 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.~~IE344. 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.~~IE345. 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.~~IE346. 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.~~IE347. 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.~~IE348. Example 64 illustrates the requirements in paragraphs AG116 – AG128 of [draft] IPSAS [X] (ED 70) on repurchase agreements.

Example 64—Repurchase Agreements

~~IE347.~~IE349. 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.~~IE350. 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.~~IE351. 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.~~IE352. 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.~~IE353. 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.~~IE354. 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.~~IE355. 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.~~IE356. Example 65 illustrates the requirements in paragraphs AG131 – AG134 of [draft] IPSAS [X] (ED 70) on bill-and-hold arrangements.

[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.

Example 65—Bill-and-Hold Arrangement

~~IE355.~~IE357. 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.~~IE358. 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.~~IE359. 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.~~IE360. 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.

~~IE359.~~IE361. 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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