IPSASB International Public Sector Accounting Standards Board®

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org

Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 8**	For: ☒ Approval ☒ Discussion ☒ Information
Meeting Location:	Abu Dhabi, United Arab Emirates		
Meeting Date:	December 10–13, 2019		

REVENUE WITHOUT PERFORMANCE OBLIGATIONS (ED 71)

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 without Performance Obligations (ED 71): Project Roadmap	8.1.1
	Instructions up to Previous Meeting	8.1.2
	Decisions up to Previous Meeting	8.1.3
Decisions required at this meeting	Themes (ED 71)	8.2.1
	Summary of Changes to Exposure Draft 71, *Revenue without Performance Obligations*, since November 6, 2019	8.2.2
	Structure	8.2.3
	Measurement	8.2.4
	Capital Transfers	8.2.5
	Other Issues	8.2.6
	Onerous Revenue Binding Arrangements	8.2.7
	Accounting for a Breach of a Binding Arrangement	8.2.8
	From Whose Perspective Does a Breach Occur?	8.2.9
	Specific Matter for Comment	8.2.10
	Approval of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*	8.2.11

Prepared by: Joanna Spencer (November 2019)

Other supporting items	[draft] ED 71, Revenue without Performance Obligation	8.3.1

Agenda Item 8.1.1

REVENUE WITHOUT PERFORMANCE OBLIGATIONS (ED 71): PROJECT ROADMAP

Meeting	**Completed Actions or Discussions / Planned Actions or Discussions:**
March 2015	1. Approve Project Brief
June 2016	1. Discussion of IPSAS 23 Implementation Issues with Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to Consultation Paper
March 2019 to June 2019	1. Develop Underlying Principles of Core Text and Authoritative Guidance
September 2019	1. Review first draft of ED 71, and discuss issues
December 2019	1. Approve Exposure Draft
March 2020	1. None Planned
June 2020	1. None Planned
September 2020	1. Review Responses
December 2020	1. Review Responses 2. Discuss Issues
March 2021	1. Review Responses 2. Discuss Issues
June 2021	1. Approve IPSAS

Agenda Item 8.1.2

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2019	1. Ensure text agreed in Sept 2018 re compulsory contributions is included.	1. All text has been included throughout ED 71.
September 2019	2. Develop a staff paper which discusses the overall approach to revenue and expenses and the linkages between EDs 70, 71 and 72. This includes reviewing: • The scope of all 3 ED's to ensure no 'gaps'; • Consistency of the definitions used; • Consistency of the use of terminology used; • Consistency of disclosures (as required); and • Consistency of illustrative examples (as required).	2. See Scoping Memo sent with In-Period Review – 6 November 2019.
September 2019	3. Ensure that the additional guidance in paragraph 30 regarding hybrid transactions is consistent with the guidance in ED 70.	3. Paragraph 10 is consistent with ED 70.
September 2019	4. Review paragraphs 34-35 (Recognition of revenue from transactions without performance obligations).	4. Actioned
September 2019	5. Review the text in paragraph 36 regarding ‘revenue is recognized as the research is conducted and certain milestones are achieved’ - reconsider the use of 'milestone'.	5. Actioned – references to milestones has been removed.
September 2019	6. Review the comment at the end of paragraph 53 regarding whether that paragraph needs to be amended for enforceable activities and eligible expenditure	6. Actioned
September 2019	7. Revise paragraphs 3(b) and 66 (re types of transfers) to ensure consistency of wording (e.g. use of such words as 'certain’).	7. Actioned to ensure consistency of wording.
September 2019	8. Consider the diagram presented June 2019 regarding the transfers in each ED.	8. See Agenda Item 5.3.5.
September 2019	9. Review paragraph 71 regarding the use of the term ‘transfer agreement’.	9. Actioned

September 2019	10. Map disclosures across EDs 70 and 71 considering their consistency.	10. See Scoping Memo sent with In-Period Review – 6 November 2019.
September 2019	11. The relevant basis for conclusion paragraphs should be brought over from IPSAS 23	11. Actioned
September 2019	12. Consider the appropriateness of the presentation requirements in IPSAS 1 (exchange / non-exchange)	12. Actioned through consequential amendments in ED 70 and ED 71.
September 2019	13. A table of concordance identifying all text brought over from IPSAS 23 (both authoritative and non-authoritative), and identifying new text should be prepared and included in the ED.	13. See Scoping Memo sent with In-Period Review – 6 November 2019.
September 2019	14. The material in paragraphs 25-29, is to be condensed to be in line with ED 70.	14. Actioned
September 2019	15. Where revenue recognition patterns are similar to those in ED 70 ensure the rationale for the pattern of recognition is the similar.	15. Staff considered and are of the view revenue recognition patterns are dissimilar.
September 2019	16. Review all IPSAS for consequential amendments.	16. Actioned
September 2019	17. Review paragraph 18 (Control of an asset) and revise in light of a performance obligation.	17. Actioned
September 2019	18. Need to consider the discussion about 'through who's eyes is there a breach of an agreement' and the consequences of a breach subsequent to the 'completion' of the binding arrangement.	18. See Agenda Paper 8.2.9
September 2019	19. Include a discussion on binding arrangements that may lead to an onerous contract.	19. See Agenda Paper 8.2.7
September 2019	20. Use the term transfer not grant.	20. Actioned
September 2019	21. Include in the Basis for Conclusions the difference between the accounting in ED 71 and IAS 20.	21. BC20-BC21
September 2019	22. Include examples, including when the asset is to be used for a particular purpose subsequent to its acquisition/construction.	22. To be included
September 2019	23. Include an SMC communicating the difference between the approach in IAS 20 and the approach proposed in ED 71 (note other SMCs will be included where required).	23. Actioned

September 2019	24. Need to articulate clearly why these transactions are not in ED 70.	24. AG10
September 2019	25. Need to bring back to the Board further analysis that considers discounting.	25. See Measurement Memo sent with In-Period Review – 6 November 2019.
September 2019	26. Develop a diagram which considers the relationships between: • Nominal tax collected • Tax expenditures (allowances) • Legally collectable taxes • What to show on the face the financial statements and what to include in the notes.	26. See Measurement Memo sent with In-Period Review – 6 November 2019.
September 2019	27. Develop a paper illustrating the linkages with IPSAS 41.	27. See Measurement Memo sent with In-Period Review – 6 November 2019.
June 2019	1. Develop a paper examining the difference and interaction between a present obligation and a performance obligation (as defined in [draft] ED 70) and how this may affect revenue recognition in [draft] ED 71. Paper should also consider accounting consequences of a breach of terms.	1. Present Obligations and Performance Obligations paper sent to Board in July 2019. See Agenda Items 8.2.2 and 8.2.3 from September 2019 meeting.
June 2019	2. Regarding enforceable transactions with “terms”, draft text on the basis that revenue is recognized when receivable unless there is a liability at inception. If a liability arises late, this is a separate event.	2. See Agenda Item 8.2.1 from September 2019 meeting.
June 2019	3. Consider hypothecated taxes and how they should be accounted for.	3. See Agenda Item 8.2.1 from September 2019 meeting.
June 2019	4. Update the agenda paper on Capital Grants considering the paper on Present Obligation / Performance Obligation.	4. See Agenda Item 8.2.5 from September 2019 meeting.
June 2019	5. Consider the terminology used considering the Present Obligation / Performance Obligation paper to be developed and Board discussions.	5. See Agenda Items 8.2.2 and 8.2.3 from September 2019 meeting.
March 2019	1. Make the changes to terminology (exchange/non-exchange) but ensure that the messaging is accurate.	1. Actioned
March 2019	2. Staff are to update the IPSAS 23 flowchart to refer only to 'Use IPSAS 23' and not pre-empt the accounting treatment.	2. Actioned

March 2019	3. To consider if there are any transactions that are enforceable but have obligations but no 'performance obligations' and possible treatment of such transactions.	3. Actioned
March 2019	1. Develop accounting treatment for unenforceable transactions to be included in an updated IPSAS 23.	1. Actioned
December 2018	1. Staff are to prepare a [draft] updated IPSAS 23 for consideration at the June 2019 Board meeting including drafting on: • Capital and research grants • Presentation • Enforceable transactions with obligations (not performance obligations) • Taxes • Appropriations.	1. Actioned
December 2018	2. The Board directed staff to develop enhanced display / disclosure requirements to communicate performance and / or intentions / expectations for unenforceable transactions.	2. To be addressed in December 2019.
September 2018	1. The Board instructed staff to consider the NZ requirements for providing qualitative disclosures for entities that are reliant of services in-kind for their operations.	1. Actioned
June 2018	1. Re Services in Kind, staff is to consider Australian and South African requirements for services in-kind and any examples provided by Board members.	1. Actioned
June 2018	2. The Board instructed staff is to provide options on how wording and placement of such encouragements to recognize or disclose services in-kind would appear in an updated IPSAS 23.	2. Actioned
March 2018	1. The Board directed staff to re-examine respondent comments to the CP regarding services in-kind and to shape the argument for each option.	1. Actioned
March 2018	2. The Board directed staff to conduct research on services in-kind to determine the requirements of other standard setters and also to investigate how not-for-profit entities (not restricted to the public sector) account for services in-kind.	2. Actioned

June 2017	1. All instructions provided 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*.

Agenda Item 8.1.3

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2019	1. The IPSASB agreed all necessary authoritative text was brought from IPSAS 23.	1. BC8
September 2019	2. The past event from a revenue transaction that arises from a binding arrangement is when the parties entered into that arrangement.	2. BC12
September 2019	3. That using resources provided via a binding arrangement to either complete enforceable activities, incur eligible expenditure or repayment in the event of a breach are all considered to be an outflow of resources.	3. BC12
September 2019	4. Revenue is recognised as enforceable activities are completed or eligible expenditure is incurred.	4. BC13
September 2019	5. Text on control of an asset should discuss appropriations as one possible indicator of control but it is jurisdictionally specific.	5. BC15
September 2019	6. Capital transfers are to be accounted in the same manner as other transfers – it will depend on the arrangement (binding or not).	6. BC19
March 2019	1. The Board agreed that in regards to revenue the terms 'exchange' and 'non-exchange' in IPSAS 23 should be replaced with terms articulating performance obligation/no performance obligation but staff should consider the appropriateness of each particular change.	1. BC9
December 2018	1. Enforceability is the determining factor as to which IPSAS a transaction will be address • Enforceable – IFRS 15 based IPSAS • Not enforceable – Updated IPSAS 23.	1. BC12
December 2018	2. Transactions that are not enforceable, but which have intentions/expectation are to be recognized when the revenue is receivable but are to communicate these intentions/expectations via enhanced display/disclosure - (Option a).	2. Basis for Conclusions to be finalized in December 2019.
June 2018	1. The Board decided not to change the existing recognition requirements for recognizing services in-kind from those already existing is IPSAS 23. But to add an encouragement for entities to provide disclosure of qualitative information about volunteers' services received.	1. BC35-BC36
March 2018	1. The Board decided that IPSAS 23 should be updated.	1. BC6

Agenda Item 8.1.3

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*.

Agenda Item 8.2.1

Themes (ED 71)

Purpose

1. To provide the Board with an overview of where issues from the in-period ED 71 review have been addressed.

Detail

2. As part of the in-period review Staff received over 400 comments on the Comment Submission Templates for 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 71:

#	Theme	ED Impacted	Issues Paper
01	Transfer Revenue / Transfer Expense	Cross Cutting	Agenda Item 5.2.3
02	Disclosures	Cross Cutting	Agenda Item 5.2.4
03	Binding Arrangement	Cross Cutting	Agenda Item 5.2.5
04	Examples / Editorials (Including BCs)	Cross Cutting	Agenda Item 5.2.6
05	Structure	ED 71	Agenda Item 8.2.3
06	Measurement	ED 71	Agenda Item 8.2.4
07	Capital Transfers	ED 71	Agenda Item 8.2.5
10	Other Issues - Appropriations - Binding Arrangements - Enforceability - Present Obligation - Scope - Definitions	ED 71	Agenda Item 8.2.6

Agenda Item 8.2.2

Summary of Changes to Exposure Draft 71, *Revenue without Performance Obligations*, since November 6, 2019

Question

1. Does the IPSASB agree with the Staff's proposed changes to [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*?

Detail

2. IPSASB Staff made a number of changes to ED 71 as a result of the in-period review. These changes are reflected in a marked-up version of ED 71 in Agenda Item 8.3.1[1].

3. To facilitate the IPSASB's review, the following paper summarizes and explains the substantive changes made to ED 71 since the November in-period review.

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

4. **Specific Matter for Comments**: See Agenda Item 8.2.10.

5. **Paragraph 1 and 2 – Objective:** Change is proposed to enhance consistency with ED 70. See Agenda Item 8.2.6.

6. **Paragraphs 3 and 5 – Scope:** Change is proposed to enhance consistency with ED 70 and clarify the scoping requirements. See Agenda Item 8.2.6.

7. **Paragraphs 16 and 25 (deleted) – Enforceability:** Change to paragraph 16 is proposed to enhance consistency with ED 70 by bringing over guidance indicating enforceability can be created by customary practices. Deletion of paragraph 25 is to maintain internal consistency within ED 71 as to how a present obligation can be created. See Agenda Item 8.2.6.

8. **Paragraph 17, 48 and 52 – Present Obligations:** Paragraph 17 was updated to better explain why a present obligation gives rise to a liability. Paragraphs 48 and 52 were added to add balance to the liability recognition guidance with the asset guidance in ED 71. See Agenda Item 8.2.6.

9. **Paragraph 32 – Flowchart:** Staff amended the flowchart for the in-period review without IPSASB approval. This change was reversed based on respondent comments. An additional change was made to address a comment from a respondent.

10. **Paragraphs 40, 41, 42, 43, 57, 69 and 70 – Measurement:** See Agenda Item 8.2.4.

11. **Paragraphs 64, 65 moved to 77, 78, 79 and 80 – Restructuring:** These paragraphs were moved as part of a broad restructuring effort. See Agenda Item 8.2.3.

12. **Paragraphs 75, 66 and 67 (deleted) – Receivables:** This change was made to simplify receivables guidance drafted by Staff for the in-period review. The receivables guidance drafted responded to an

[1] The In-Period Review version of ED 71 is included in Agenda Item 5.3.2 for informational purposes.

instruction from the Board. A respondent provided more clear and concise wording to arrive at the same accounting outcome. Guidance has also been amended in ED 70 for consistency purposes.

13. **Paragraphs 89 (deleted), 92 (deleted), 93 (deleted), AG47 (deleted) and AG48 (deleted) – Capital Transfers:** These paragraphs were deleted to maintain consistency with the core principles of the standard. See Agenda Item 8.2.5.

14. **Paragraph 122 – Uncollectible Inflows Disclosure:** This paragraph was updated based on amendments made to ED 70.

15. **Paragraph AG34 – Determining the Transaction Price:** This paragraph was deleted because it justified why transaction price was used for measurement from a practical perspective – it should reduce volatility in revenue. This represents a Basis for Conclusion. Staff ensured this concept was replicated in BC14 – BC17 and removed AG34.

16. **Amendments to Other IPSAS:** Staff updated the Amendments to Other IPSAS Appendix with amendments to Basis for Conclusions in other IPSAS. This is consistent with ED 70 and ED 72.

Decision Required

17. Does the IPSASB agree with the Staff recommended changes?

Agenda Item 8.2.3

Structure

Question

1. Whether the Board agrees with the recommended structure of ED 71.

Detail

2. Some respondents to the Revenue / Transfer Expense in-period review, challenged the structure proposed for ED 71 (See Appendix to Agenda Item 8.2.3). One respondent noted there was a lack of consistency between ED 71 and the other EDs, noting concern because consistency in approach is important to understand how the suite of EDs works together.

Analysis

3. A significant amount of time was invested by staff on the ED 71 structure, both in developing the in-period review version of ED 71, and in actioning comments received to develop the draft ED 71 for the December meeting. The structure of ED 71 is complicated as it addresses assets, liabilities and revenue.

4. Staff responded to comments and restructured ED 71 for the December Board Papers to create a better flow to the document. As noted in Table 1, this has resulted in greater consistency between ED 71 and ED 72. However, staff highlights this is consistency is at the expense of greater consistency between ED 70 and ED 71.

5. Material from the in-period review version of ED 71 has been moved around through this restructuring process. However, it is important to note that this process has not resulted in additional guidance being added.

   (a) Staff did not restructure the Application Guidance to follow the core text. This was to facilitate the review of the material by the Board. The Application Guidance will be restructured during the Editorial Review Process if Staff's recommendation is supported.

6. Table 1 compares the structure of ED 71 from the in-period review version and the December Board Papers version, to ED 70 and ED 72:

Table 1

ED 71 **December Board Papers**	ED 71 **In-Period Review**	ED 70 **No Change**	ED 72 **No Change**
Scope	**Scope**	**Scope**	**Scope**
Objective	**Objective**	**Objective**	**Objective**
Definitions	**Definitions**	**Definitions**	**Definitions**
Analysis of the Initial Inflow of Resources from Transactions without Performance Obligations	**Analysis of the Initial Inflow of Resources from Transactions Without Performance Obligations**	**-**	**-**
Recognition of Assets Arising from Resource Inflows	**-**	**-**	**-**

Transfers with Present Obligations
- Recognition
  - Liabilities
  - Revenue
- Measurement
  - Revenue
	Recognition
	- Asset
	- Revenue
	- Liability
		Recognition
		- Identifying the Binding Arrangement (Step 1)
		- Identifying the Performance Obligations (Step 2)
		- Satisfaction of Performance Obligations (Step 5)
			Transfer Expenses with Performance Obligations
			- Recognition
			- Measurement

	Measurement - Asset - Revenue - Liability	**Measurement** - Determining the Transaction Consideration (Step 3) - Allocating the Transaction Consideration to Performance Obligations (Step 4)	

Transfers without Present Obligations
- Recognition
  - Revenue
- Measurement
  - Revenue
	-	**-**	**Transfer Expenses without Performance Obligations**
			- Recognition
			- Measurement

Application of Principles and Requirements
- Taxes
- Other Transfers
  - Capital Transfers
  - Pledges
  - Concessionary Loans
	Taxes	**-**	**-**

	Transfers	**-**	**-**
-	**-**	**Binding Arrangement Costs**	**-**
-	**-**	**Presentation**	**Presentation**
Disclosure	**Disclosure**	**Disclosure**	**Disclosure**
Effective Date	**Effective Date**	**Effective Date**	**Effective Date**

7. Another respondent suggested relocating the guidance on Taxes and Transfers, Paragraphs 81–113 to the AGs because it is the application of the principles to specific transactions. Staff did not action this suggestion, however, the current structure does support this relocation given the section has been retitled “Application of Principles and Requirements”.

Recommendation

8. Staff recommend applying the structure proposed in the December Board Papers. However, Staff recognize there are advantages to both structures presented.

Agenda Item 8.2.3

Decision Required

9. Does the IPSASB agree with the Staff recommendation?

Agenda Item 8.2.3

Appendix to Agenda Item 8.2.3 – Summary of Responses (Structure)

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	25	Structure	This paragraph deals with a presentational issue and should rather be included in the section dealing with disclosures.	No Action - staff agree with the point, however, ED71 currently does not have a presentation section. Paragraph remains as is for now	Respondent 09
71	3 to 5	Structure	The chronical order of 3-5 should be the same as in the scope section of ED 71.2 a-c. First – public sector combination (5), Second – Revenue from transaction with performance obl (3-4), Third – contribution to owners (6-7)	Agree - the ordering of paragaph 2 has been updated to reflect the ording of the paragraphs 3-7	Respondent 07
71	General: guidance on advance receipts	Structure	In reading ED 71, we noted that guidance on advance receipts is addressed in a number of sections (for example paragraph .26 and paragraph .105). We propose that all the guidance advance receipts should be addressed in one section.	No action - Paragraphs 26/27 are general guidance, paragaphs 80 and 105 are specific to taxes and transfers	Respondent 09
71	General: Guidance on taxes	Structure	The guidance on taxes is dispersed throughout the proposed Standard, for example paragraphs .28 to .30 and again in paragraphs .72 to 80. We recommend that consideration should be given to combine the guidance into a single section dealing with taxes. It should also be considered whether there should be such a clear emphasis on taxes, as taxes are just one type of revenue without performance obligations applies.	No action - Paragraphs 28-30 are general guidance, paragaphs 72 and 80 are specific to taxes	Respondent 09
71	General: Structure	Structure	Paragraphs 31 to .71 outlines the general principles to be applied in accounting for revenue without performance obligations. Paragraphs .72 to .107 then seem to explain how these principles are applied to certain transactions, such as taxes and transfers. We are of the view that the guidance in paragraph .72 to .107 is more suited in the application guidance to ED 71.	Agreed - guidance has been restructured to better highlight the type of guidance being provided. Secions on revenue from Present Obligations, Revenue without Present Obligations and specific guidance. - see structure memo for more details	Respondent 09
71	General	Structure	#1 Structure of ED The proposals in ED 71 include a significant changes in approach from IPSAS 23 and introduces new principles and thinking on revenue recognition for transactions without performance obligations – therefore we feel the ED has moved past a "update" of IPSAS 23 and as a result the structure of the ED should be amended accordingly to allow new principles and requirements to be set out in a manner that will allow for the user of the Standard to follow it through in an orderly fashion. Given the extent of changes to IPSAS 23, the approach of keeping the ED structure consistent with IPSAS 23 does not work. The ED is a residual revenue standard and proposes two different recognition approaches: •transactions from binding arrangements (i.e. has present obligations) – recognise revenue as present obligations are satisfied; and •transactions from non-binding arrangements (i.e. no present obligations) – recognise revenue immediately when the transfer recipient takes control of the resources (i.e. when the definition of an asset is meet). The structure of the ED should be built around these two approaches and discuss each approach separately. Independent reviewers in New Zealand who have not been following the project closely noted the structure in ED 71 was "quite hard to follow and jumped around talking about different categorioes of revenue transactions in different sections". We feel that the flowchart in the ED provides a useful basis for developing the structure of the ED, and where possible and appropriate the structure should be consistent with ED 70 and 72 given the three EDs will be issued as a package.	Actioned - Staff has reflected the proposal in the December Board version. See structuring memo 8.2.3	Responed 06

Agenda Item 8.2.4

Measurement

Question

1. Whether the Board agrees with the recommendations to:

   (a) Clarify the application of transaction price in ED 71; and
   (b) Ask an SMC regarding the application of the IPSAS 41, *Financial Instruments* impairment model to receivable balances within the scope of ED 71.

Detail

2. As part of the in-period review, the fair value measurement requirements in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* were updated to transaction price in ED 71. This was done for the following reasons:

   (a) **Consistency with ED 70**. Consistent measurement requirements eliminate arbitrage between EDs.

   (b) **Consistency with IPSAS 23**. Determining the transaction price is largely consistent with determining fair value. The notable exception is credit risk is ignored when determining the transaction price.

   (c) **Addresses collection uncertainty**. Constituents noted there were challenges in measuring revenue at fair value in IPSAS 23 when there is uncertainty whether an amount will be received. Applying transaction price eliminates this challenge as amounts are only recognized when collection is highly probable.

3. While respondents to the in-period review did not object to the application of transaction price in ED 70, some issues were raised:

   (a) **Complexity in application**. Applying transaction price to taxes may be more onerous than the requirements in IPSAS 23 which measure taxes at best estimate. Transaction price requires measurement of the expected value or most likely amount.

   (b) **Interaction with IPSAS 41**. Responses to the Revenue and Non-Exchanges Expenses Consultation Paper indicated agreement with applying the impairment requirements of IPSAS 29, *Financial Instruments: Recognition and Measurement*. The new impairment requirements of IPSAS 41, *Financial Instruments*, are more onerous, therefore constituents should be consulted again.

   (c) **Recognition when not probable**. The requirement to measure revenue only to the extent that it is highly probable that a reversal will not occur raises an issue of how to recognize revenue when it is not probable.

   (d) **Non-cash / cash distinction**. Inconsistencies were noted in how transaction price was applied throughout ED 71. This was due in part to the way the requirements were drafted, i.e., to meet an objective of maintaining IPSAS 23 guidance to the extent possible. However, the distinction

between measuring cash transactions at the transaction price and non-cash transactions at fair value could be clarified.

Analysis

4. In analyzing each of the issues, staff considered:

   (a) **Complexity in application**. Staff's view is measuring taxes at best estimate, as required under IPSAS 23, is consistent with transaction price at the most likely amount. Clarifying this in the ED 71 guidance has the benefit of applying one measurement basis throughout ED 71, while maintaining consistency with IPSAS 23.

   (b) **Interaction with IPSAS 41**. Both IPSAS 29 and the related IFRS standard, IAS 39, *Financial Instruments: Recognition and Measurement*, were both criticized because they delayed recognition of impairment. Further, they included multiple impairment models which added complexity. A benefit of the IPSASB developing IPSAS 41 was a single impairment model. Staff are of the view that developing an impairment model for receivables within the scope of ED 71 adds unneeded complexity.

   (c) **Recognition when not probable**. A highly probable recognition threshold was added to ED 71 as part of the adoption of transaction price (based on ED 70). ED 70 also includes guidance when it is not probable consideration is collectible in paragraphs 12–15. This guidance can be added to ED 71 to clarify the issue raised by the respondent.

   (d) **Non-cash / cash distinction**. This distinction exists because of the objective of maintaining IPSAS 23 guidance to the extent possible. However, the ED 70 transaction price requirements require that transaction price for non-monetary assets is fair value. Further, alignment with the ED 70 requirements simplifies the ED 71 measurement requirements, while maintaining the same outcome as follows:

	ED 71 (in-period review)	ED 71 (Dec Board Mailing)
Cash transactions	Transaction Price	Transaction Price (Transaction price for non-cash transactions is fair value)
Non-cash transactions	Fair Value	

Recommendation

5. Staff recommends the following actions to address each item:

   (a) **Complexity in application**.

   The guidance on measurement of taxes has been clarified to indicate most likely amount is the same as best estimate (See paragraph 90 of ED 71).

(b) **Interaction with IPSAS 41**.

Ask an SMC stating:

"Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, *Financial Instruments*? If not, why not?"

(c) **Recognition when not probable**.

Incorporate ED 70 paragraphs 12–15 which address the recognition of revenue when collection is not probable (See paragraph 40–43 of ED 71).

(d) **Non-cash / cash distinction**.

Restructure the transaction price guidance in order for all transactions within the scope of ED 71 to be measured at the transaction price. Indicate fair value is the transaction price for non-monetary assets (See paragraphs 69 and 70 of ED 71).

Decision Required

6. Does the IPSASB agree with the Staff recommendation?

Agenda Item 8.2.4

Appendix to Agenda Item 8.2.4 – Summary of Responses (Measurement)

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	57.00	Measurement	We discussed to what extent price concessions impacted tax revenues. We concluded that there are sufficient examples of HMRC (government tax collector) having struck deals with companies and indeed individuals (famously with the owner of Harrods, Mohame al Fayed). These deals could end up having the same impact as per the above where the boundaries are blurred between face value and transaction price. Again, a poor tax collector may estimate the transaction price differently to one that is more effective based on the same underlying transactions. We feel that price concessions needs to play a bigger part in ED71 than it currently does.	No Action - non substantive comment. Jurisdiction agrees with the principle. Propose including an example to illustrate the principle in more depth.	Respondent 02
71	38	Measurement	We question the requirement in this paragraph that requires the transfer recipient to assess probability of past experience with similar transactions. ED 70 requires entities to not recognise revenue until it is probable that the entity will collect the consideration it is entitled to in exchange for goods or services through retesting. ED 70 also allows for price concessions when, based on published policies or specific statements that it will accept an amount that is less than the price stated in the binding arrangement. It is unclear how an entity should apply the probability criterion in ED 71. Would no revenue be recognised, or would the amount that is probable be recognised (and/or when a price concession is offered)? We propose that either the guidance should be explained or an approach similar to that in ED 70 (i.e. that in	Agree - brought across paragraphs 8(e), 13, 14 and 15 from ED 70 detailing when to recognize revenue when the probability criterion is not satified - these paragraphs have been inserted in the asset recognition section (paragraph 38-41)	Respondent 09
71	51	Measurement	Propose changing 'A non-cash asset' to 'A non-monetary asset'... We also note that there is no guidance on how to determine fair value included in ED 71. We would have expected to see a discussion on fair value after paragraph 62.	Agreed - wording will be reviewed as part of editorial group for monetary asset - no additional guidance on FV added. This guidance will be incorporated in the Measurement	Respondent 09
71	53	Measurement	We propose that the reference to impairment guidance in this paragraph be deleted as it is not relevant to the revenue principles.	No Action - agreed with the concept present - paragraph clarifies credit losses are excluded from the calculation of revenue and impairment is considered as part of IPSAS 41	Respondent 09
71	57	Measurement	The first sentence refers to 'price concessions' and 'performance bonuses'. Consider whether there is a better term for 'price concessions' in the context of taxes, fines etc. and consider whether 'performance bonuses' are relevant to the types of transactions within the scope of this ED.	Agreed - terminology updated to "negotiated concession"	Respondent 09
71	58	Measurement	This paragraph allows for the use of one of two methods to estimate the amount of variable consideration. If the principles on transaction price are applicable to all types of revenue transactions without performance obligations (including taxes), it will change the measurement of taxes. IPSAS 23 required an entity to measure tax revenue using a 'best estimate'. This could have resulted in an entity only developing one possible outcome for tax collection. Applying the principles in paragraph .58(a) and (b) will require entities to develop multiple scenarios for tax revenue which may be extremely onerous. When the IPSASB issued the Consultation Paper, there was a view that the accounting for transactions without performance obligations would remain largely unchanged. We are therefore unsure why the measurement approach has been changed to align with IFRS 15, as the accounting for some of these transactions may now become more complex. We propose that the accounting for tax revenue should be kept closely aligned with the principles established in IPSAS 23. If the requirements from IFRS 15 on transaction price are retained, we suggest that the application guidance for tax revenue should indicate that an entity need not apply paragraphs 58(a) or (b) where there are variable inflows	No action - best estimate is the "most likely amount" - paragraph 84 has been updated to indicate it is expected that taxes will be measured at the transaction amount and the end of sentence now indicates "which is consistent with most likely amount with paragraph 58".	Respondent 09
71	61(a)	Measurement	We question the consideration of "a high risk of obsolescence of the inflow when it non-cash" in this section as the "transaction price" is only applicable to "cash transfers" in accordance with paragraph 50. We are also unsure whether references to "volatility in the market" and "weather conditions" are appropriate for the types of transactions in the scope of ED 71.	Agree - transaction price section has been updated for consistency with ED 70 as it relates to non-cash consideration. - in-period review document indicated cash transctions were measured at transaction price and non-cash transactions were measured at fair value - now all transactions are measured at transaction price. However, transaction price for a non-cash tranasction is fair value.	Respondent 09
71	62	Measurement	The guidance should be expanded to explain how the change should be accounted for, i.e. include a reference to IPSAS 3 (see paragraph 83 as well as ED 70). If the reference is included here, it could potentially be deleted in	No action - consistent with ED 70	Respondent 09
71	81 to 84	Measurement	We have observed that there are inconsistencies between the measurement of cash and non-cash assets proposed in paragraphs 50 and 51 and the measurement paragraphs for taxes. The following are examples: -Paragraph 81 only refers to 'fair value'. Based on paragraph 51, this would then only apply to non-cash assets. As taxes are likely to be collected in cash, we believe that reference should be made to both transaction price (cash) and fair value (non-cash). -Paragraph 82 seems inconsistent with the approaches outlined in paragraphs 58(a) and (b) – see comments on that paragraph for taxes. There are similar examples in the application guidance for the other transaction types (e.g. AG37, AG42 and AG53 still refers only to fair value).	No action - best estimate is the "most likely amount" - paragraph 84 has been updated to indicate it is expected that taxes will be measured at the transaction amount and the end of sentence now indicates "which is consistent with most likely amount with paragraph 58".	Respondent 09

Agenda Item 8.2.4

ED	Paragraph	Theme	Comment	Staff response	Respondent
71	AG34	Measurement	We question the relevance of the principle on the reduction in the volatility on revenue in this paragraph and propose the deletion of the sentence. It also contradicts paragraph 62 as well as 83/84 on adjustments to revenue estimates in subsequent periods.	Agreed - this concept is more relevant as a BC - the concept is already addressed in BC16/17/18	Respondent 09
71	General: Guidance on determining transaction price	Measurement	We question whether the guidance on determining the transaction price applies to revenue transactions without performance obligations arising from binding arrangements as well as to those that do not arise from binding arrangements. There seemed to be inconsistences between paragraphs 50 and 51 and the text on the specific transaction types from paragraph 72 onwards. We propose that the application of transaction price should be clarified as part of the considerations on the structure of ED 71.	Agree - Gudiance has been updated and structure is consistent with ED70. All transactions in scope of ED71 are now measured at transaction price. For non-monetary items, the transaction price is the fair value.	Respondent 09
71	Measurement	Measurement	Incorporating the 'highly probable constraint into ED71 where revenue is uncertain. I question whether this gives the right answer to the recognition and measurement of income in ED71. In particular, I question this when it comes to taxation revenue. I do not agree that should recognise no revenue at all until it is highly probable in the way described in paras 7-9 in the measurement memo on this topic. An entity could be 100% certain that they will get at least $x however the example is suggesting in this scenario no revenue would be recognised at all until an entity is virtually certain it knows the exact amount it will receive. I can think of examples where governments are recognising taxation revenues based on estimation techniques. What is being proposed here could be a significant change in practice and I am not sure it is the right answer. For me, this needs more consideration and work	Agreed - staff to develop non-authoratative example	Respondent 02

Agenda Item 8.2.5

Capital Transfers

Question

1. Whether the Board agrees with the Staff recommendations regarding capital transfers.

Detail

2. Some respondents to the in-period review identified issues with the 'Recognition of Revenue from Capital Transfers', section related to:

   (a) **Consistency of Paragraph 92**. The definition in paragraph 9 of ED 71 requires a capital transfer arises from a binding arrangement. This is inconsistent with paragraph 92 which applies to capital transfers that do not arise from a binding arrangement.

   (b) **Consistency of Paragraph 95**. Respondents noted a capital transfer should include at least one enforceable activity (procure or build a non-current non-financial asset). As such, it is inconsistent to note in paragraph 95, there are no enforceable activities or eligible expenditures.

   (c) **Consistency of Paragraph 96**. Respondents noted the requirement in paragraph 96 to allocate the entire amount of inflow to the procurement/construction of the non-financial asset was inconsistent with the principles of ED 71. If revenue relates to more than one present obligation it should not be allocated completely to the procurement/construction obligation.

Analysis

3. Staff agree with the comments raised by respondents.

Staff Recommendations

4. Staff recommend deleting:

   (a) Paragraph 92;
   (b) Paragraph 95; and
   (c) Paragraph 96, including the associated AGs (AG47-AG48)

Decision Required

5. Does the IPSASB agree with the Staff recommendations?

Agenda Item 8.2.6

Other Issues

Question

1. Whether the Board agrees with the recommendation on how to action other issues.

Detail

2. Staff received several comments from IPSASB members, technical advisors and observers in response to the November in-period review of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

3. Comments resulting in substantive changes to the EDs or comments regarding substantive issues which require the IPSASB's input are discussed in Agenda Items 8.2.3, 8.2.4 and 8.2.5.

4. The following paper summarizes how the Staff addressed other comments, grouped into themes, raised in the November in-period review.

Objective (Paragraphs 1 and 2)

5. Respondents commented that the Objective paragraphs were not consistent between ED 70 and ED 71. Staff have aligned the objective paragraphs, so the wording is consistent across EDs 70-72.

Objective (Paragraphs 3, 5 and 10)

6. Respondents commented that the Scope exclusions should be consistent between ED 70 and ED 71. Staff have aligned paragraph 3 and added paragraph 5 to address respondents concerns that the scope of the standard required clarification.

7. Some respondents noted inconsistency between the scoping requirement in ED 70 and ED 71 as it relates to components of a transaction. However, no action was taken as ED 70. 5 requires applying the requirements in the other standards first, and then applying ED 70, which is consistent with ED 71.10 that requires the requirements of ED 71 first be applied, and then apply ED 70 if the transaction cannot be separated into its components.

Definitions (Paragraph 11)

8. A number of comments and questions were raised regarding definitions which, in the Staff's view, did not result in substantive changes:

   (a) Present Obligation (ED 71) – A respondent questioned whether the definition of a present obligation should be added to ED 71, as the concept has a significant impact on when revenue is recognized under ED 71. Staff notes that the concept of a present obligation is described in ED 71 paragraph 16 consistent with paragraph 5.15 of the IPSASB's Conceptual Framework. No action required.

   (b) Revenue (ED 71) – A number of respondents noted that a revenue definition is not included in ED 71 and the definition of revenue from ED 70 should be added. Staff noted revenue is defined in ED 71 by reference to IPSAS 1, and that the definition of revenue in ED 70 is the

same as the definition in IPSAS 1. As ED 71 relies on the definition of revenue in IPSAS 1, no action required.

Enforceability (Paragraphs 16 and 25)

9. A number of comments were received regarding the consistency of enforceability between ED 70 and ED 71, in particular that the concept in ED 70 regarding 'a binding arrangement can be implied by an entity's customary practices' was not included in ED 71. Further, paragraph 16 states that 'constructive obligations do not arise from enforceable activities' might be considered contrary to concept regarding customary practices. Staff have included the relevant enforceability paragraphs from ED 70 into ED 71 and clarified that constructive obligations are different from enforceable activities or the requirement to incur eligible expenditure and that constructive obligations do not arise from binding arrangements.

10. One respondent identified an inconsistency in paragraph 25 which contradicted the principle that a present obligation exists when the entity cannot avoid using the resources to fulfil the binding arrangement requirements, or in the event of a breach. Paragraph 25 was removed.

11. Another respondent asked whether the requirements from IPSAS 23 indicating a requirement for an entity to perform an action that it already has no alternative but to perform does not in substance impose on the recipient entity a present obligation should be retained in ED 71. This guidance was not carried forward in ED 71, because the use of the concept of binding arrangement and present obligation are clarified on how a liability is created.

Present Obligation (Paragraphs 17, 48 and 52)

12. One respondent commented that the explanation of present obligation in paragraph 17 did not explain how the arrangement may result in an outflow of resources where the transfer recipient cannot avoid using the resources to fulfil the binding arrangement requirements, or in the event of a breach. Staff agreed with the point and incorporated guidance from the BCs into the core guidance as this is a key concept.

13. One respondent noted there was an imbalance in guidance between asset recognition and liability recognition. Specifically, there was significant guidance asset recognition included, but limited guidance for liabilities. As ED 71 is principally a revenue standard, differentiating with whether a liability exists is key. Staff added paragraphs 48 and 52 to augment the liability guidance.

14. Other respondents also questioned what the difference was between Enforceable Activities and Eligible Expenditures and whether they were even necessary in supporting the principle revenue is recognized as the present obligation is satisfied. Staff does not recommend removing the guidance on Enforceable Activities and Eligible Expenditures, however, Staff proposes an SMC to ask constituents their views:

    (a) Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?

15. Respondents were also concerned with allocating the transaction price between present obligations and determining when a present obligation is satisfied. Staff considered both points in developing the

in-period review and weighed incorporating additional guidance from ED 70 on both issues, with over complicating the standard. Staff recommends against incorporating additional sections from ED 70, however, Staff proposes SMCs to ask constituents their views:

(a) Do you agree sufficient guidance exists in [draft] IPSAS [X] (ED 71) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?

(b) Do you agree sufficient guidance exists in [draft] IPSAS [X] (ED 71) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?

Appropriations

16. One respondent commented that paragraphs 36, AG32 and BC15 in ED 71 and paragraph 97 ED 72 only stated that a limitation has substance if a transfer provider is prohibited from transferring resources until an appropriation is approved. This respondent commented that there may also be a limitation if the resources can only be used from a point in time. Staff does not recommend making a change because this is a limitation associated within a binding arrangement, not the appropriation.

Question

17. Does the IPSASB agree with the Staff's recommendations.

Agenda Item 8.2.7

Onerous Revenue Binding Arrangements

Question

1. At the September 2019 IPSASB meeting, a member noted that in the Public Sector, a binding arrangement can be without the ultimate consent of both parties through the rule of law or regulation. A certain task may be imposed on an entity by law, and the entity may get compensated with a lump sum or by tariffs, which may not cover all costs and eventually lead to an onerous contract. The member asked whether the guidance in [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71) addresses these onerous binding arrangements.

2. The IPSASB is asked to consider the Staff's recommendation for addressing these onerous binding arrangements.

Detail

3. Staff noted that the IASB and the FASB considered onerous performance obligations when developing IFRS 15, *Revenue from Contracts with Customers*. As noted in the IASB's basis for conclusions in IFRS 15:

   Onerous performance obligations

   BC294 In the 2010 and the 2011 Exposure Drafts, the boards proposed including requirements for identifying and measuring onerous performance obligations in contracts with customers (i.e., an 'onerous test'). In those proposals, the boards concluded that an onerous test was needed because the initial measurements of performance obligations are not routinely updated. In addition, the boards noted that including an onerous test would achieve greater convergence of IFRS and US GAAP.

   BC295 However, many respondents to the 2010 and the 2011 Exposure Drafts disagreed with the onerous test and highlighted a number of practical application difficulties. Furthermore, many explained that strict application of the onerous test would have resulted in recognition of liabilities in cases in which the outcome of fulfilling a single performance obligation was onerous but the outcome of fulfilling the entire contract would be profitable. A number of respondents suggested removing the onerous test from the revenue proposals because, in addition to being complex and difficult to apply, the requirements for recognition of onerous losses are already sufficiently addressed in other Standards. Those respondents commented that:

   (a) for IFRS, the onerous test in IAS 37 and the requirements in IAS 2 Inventories already provide sufficient guidance for determining when to recognise losses arising from contracts with customers.

   (b) for US GAAP, existing requirements for recognition of losses from contracts are adequate and if a change to those requirements is necessary, that change could instead be handled in a separate project that addresses liabilities in Topic 450.

BC296 The boards agreed that existing requirements in both IFRS and US GAAP could adequately identify onerous contracts. Furthermore, the boards noted that although their existing requirements for onerous contracts are not identical, they are not aware of any pressing practice issues resulting from the application of those existing requirements. Consequently, the boards decided that IFRS 15 should not include an onerous test. Instead, entities applying IFRS or US GAAP will use their respective existing requirements for the identification and measurement of onerous contracts.

4. Similar to IFRS 15, paragraph 3(e) of ED 70 has a scope exception for transactions within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. ED 71 has a similar scope exception in paragraph 2(h).

5. IPSAS 19.78 (which is consistent with IAS 37.67) currently states: (emphasis added)

> 78. Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be canceled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. **Where events make such a contract onerous, the contract falls within the scope of this Standard, and a liability exists that is recognized.** Executory contracts that are not onerous fall outside the scope of this Standard.

6. Although the above paragraph only makes references to “contracts”, the principles of IPSAS 19 also apply to non-legally binding obligations (e.g., constructive obligations). Therefore, in the Staff’s view, the above paragraph in IPSAS 19 along with the scope exclusions in ED 70 and ED 71, would lead to the application of IPSAS 19 to revenue binding arrangements that become onerous.

7. As the matter is already addressed in IPSAS 19, Staff is of the view that no changes are needed to ED 70 or ED 71.

Decision Required

8. Does the IPSASB agree with the Staff recommendation?

Accounting for a Breach of a Binding Arrangement

Question

1. Does the IPSASB agree with the staff recommendation on accounting for a breach of a binding arrangement?

Details

2. As the June 2019 meeting, the IPSASB asked staff to consider what the appropriate accounting is when a transfer recipient breaches the terms of a binding arrangement[2] and is required to repay the resources received from the transfer provider (or incur a penalty as per the terms of the arrangement).

3. The staff view is that the accounting in the event of a breach of a binding arrangement depends on:

   (a) Whether the arrangement gave rise to a present obligation or not; and

   (b) Timing of the occurrence of the breach:

      (i) Current period; or
      (ii) Prior period.

4. When a breach in a binding arrangement is identified, the staff view is that IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* applies because the breach would be considered an error[3].

Accounting for breaches in the current reporting period

5. If the breach occurs in the current reporting period and is identified before the completion of the financial statements, the accounting will involve either:

   (a) Scenario 1—Present obligation exists. Under this scenario, the liability is reversed; or

   (b) Scenario 2—No present obligation exists. Under this scenario the revenue is reversed.

   The amount of the adjustment will be dependent on the terms of the binding arrangement.

6. An example illustrating paragraph 4 is included in the attached appendix.

Accounting for breaches related to prior periods

7. If the breach identified related to the prior period. The comparative figures would be restated (paragraph IPSAS 3.47(a)). Or alternatively if the breach related to an earlier prior period that was not presented, the opening balances of asset, liabilities and net asset/equity would need to be restated (paragraph IPSAS 3.47(b)).

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[2] A binding arrangement is defined in ED 70, *Revenue with Performance Obligations* as:

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

[3] Paragraphs 46-54 apply when accounting for an error in accordance with IPSAS 3.

8. These restatements to prior periods are constrained by:

   (a) If the correction is material; and
   (b) The practicality of retrospective restatement.

Staff Recommendation

9. Staff consider that accounting for a breach of a binding requirement generally requires applying the principles in IPSAS 3 and therefore do not recommend including any text relating to how to account for a breach of a binding arrangement into ED 71.

Decisions required

10. Does the IPSASB agree with the staff recommendation?

Appendix

11. This appendix provides further detail on how a breach that occurs and is identified in a current reporting period should be accounted for under various scenarios.

12. Fact Pattern:

    (i) A central government provides CU50,000 funding to a local government to purchase and install 10,000 rodent traps (CU5 per trap). *Note: this example does not meet the criteria to be accounted for under ED 70, Revenue with Performance Obligations because the terms of the binding arrangement does not require the transfer of the rodent traps to the central government or third-party beneficiary.*

    (ii) The funding is provided upfront when the binding arrangement is signed by both parties.

    (iii) In the event of a breach of the binding arrangement, the transfer recipient is to return the resources not used in accordance with the requirement of the agreement.

    (iv) The local government had purchased and installed 2,500 traps when a natural disaster occurred and the local government diverted the remaining funds (CU37,500) to assist citizens affected by the disaster. Because the local government did not spend the money as specified in the binding arrangement on the eligible expenditure of rat traps, the central government consider them in breech and has requested the refund of those funds spent inappropriately.

13. The accounting for the transaction including the breach is illustrated below

If breach occurred in the current period

If a present obligation exists		
Upon receipt of funding		
DR	Cash	CU50,000
CR	Liability (Present Obligation)	CU50,000

If no present obligation exists		
Upon receipt of funding		
DR	Cash	CU50,000
CR	Revenue	CU50,000

Purchase and Laying of 2500 rodent traps		
DR	Expense (Rodent traps)	CU12,500
CR	Cash	CU12,500
DR	Liability (Present Obligation)	CU12,500

Purchase and Laying of 2500 rodent traps		
DR	Expense (Rodent traps)	CU12,500
CR	Cash	CU12,500

CR	Revenue	CU 12500

Disaster Relief		
DR	Expense (Disaster Relief)	CU37,500
CR	Cash	CU37,500

Disaster Relief		
DR	Expense (Disaster Relief)	CU37,500
CR	Cash	CU37,500

Repayment to Central Government due to Breach		
DR	Liability (Present Obligation)	CU37,500
CR	Cash/Acct Payable	CU37,500

Repayment to Central Government due to Breach		
DR	Revenue	CU37,500
CR	Cash/Acct Payable	CU37,500

Agenda Item 8.2.9

From Whose Perspective Does a Breach Occur?

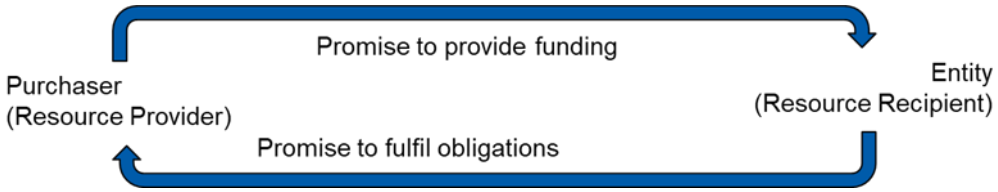
Question

1. Does the IPSASB agree with the Staff assessment and recommendation as to 'whose eyes' there is a breach of an agreement?

Detail

2. At the September 2019 meeting Staff were requested to consider through 'whose eyes is there a breach of an agreement'. The accounting for a breach of the binding arrangement is addressed in Agenda Item 8.2.8.

3. As noted in ED 70, *Revenue with Performance Obligations* at paragraph AG15 (see diagram below), both parties to a binding arrangement have the ability to enforce the rights and obligations of the arrangement. Therefore, a breach can be viewed from the perspective of either party.



4. Therefore, if a transfer recipient has received funding from the transfer provider and fails to fulfill the obligations of the binding arrangement then the transfer recipient has breached the agreement and the transfer provider can enforce repayment or another penalty.

5. Conversely if the transfer recipient has fulfilled the obligations of the binding arrangement but the transfer provider fails to provide the funding related to those obligations, then the transfer provider has breached the binding arrangement and the transfer recipient can enforce payment.

6. However, in the context of ED 71, *Revenue without Performance Obligations* transactions, Staff consider that for most binding arrangements, the transfer provider will generally provide the funding in advance of the transfer recipient commencing their activities (ED 71 transactions usually include funding up front for the activities covered by the arrangement). Therefore, as the transfer provider has fulfilled their obligation to provide funding, the only party likely to breach is the transfer recipient by not fulfilling their obligations set out in the binding arrangement.

7. A transfer recipient may or may not be aware that they have breached the binding arrangement. A transfer recipient may consider they have met the terms of the binding arrangement, but the transfer provider may have a different perspective. For example, as noted in the appendix of Agenda Item 8.2.8 a transfer provider may identify a breach in subsequent period following the completion of the binding arrangement. In this scenario the transfer recipient may consider they had met the requirements of the binding arrangement but the transfer provider considered differently, therefore the breach was in the eyes of the transfer provider.

8. In summary, a breach of a binding arrangement may occur by either party to the arrangement, but Staff are of the view that breaches of transactions within the scope of ED 71 will occur by a transfer

recipient and it is the transfer provider that will enforce repayment or another penalty against the transfer recipient.

Staff recommendation

9. Staff have provided this analysis at the request of the IPSASB. However, staff do not propose any related text be included in ED 71.

Decisions required

10. Does the IPSASB agree with the staff analysis and recommendation on from which perspective a breach of a binding arrangement is viewed under ED 71?

Agenda Item 8.2.10

Specific Matter for Comment

Question

1. Whether the Board agrees with the recommended Specific Matter for Comment (SMC).

Detail

2. In identifying specific matters for which the IPSASB should seek feedback from constituents, Staff used:

   (a) Internal discussions between Revenue / Transfer Expenses team members; and

   (b) Issues raised by respondents to the In-Period Review.

Staff recommendation

3. Staff recommend the following SMCs be included in ED 71:

#	Specifc Matter for Comment	Agenda Item
1	Do you agree with the IPSASB's proposals that for the purposes of the [draft] IPSAS [X] (ED 71), *Revenue with Performance Obligations,* a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?	Agenda Item 8.2.6
2	Do you agree sufficient guidance exists in [draft] IPSAS [X] (ED 71) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?	Agenda Item 8.2.6
3	Do you agree sufficient guidance exists in [draft] IPSAS [X] (ED 71) to identify and determine how to allocate the transaction price between different present obligations? If not, why not?	Agenda Item 8.2.6
4	Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, why not?	Agenda Item 8.2.4
5	Do you agree the disclosure requirements in [draft] IPSAS [X] (ED 71) are appropriate to provide users with sufficient, reliable and relevant information about the revenue transaction? If not, why not?	Agenda Item 5.2.4
6	Do you agree with the IPSASB's proposals for Capital Transfers rather than using the requirements of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* (see paragraphs BC19-BC22)?	Developed as part of in-period review

Decision required

4. Does the IPSASB agree with the staff recommendation?

Agenda Item 8.2.11

Approval of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*

Purpose

1. The IPSASB is asked to approve [draft] IPSAS [X] (ED 71), *Revenue without 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, 2017.

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 project development.

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 IPSASB performed an in-period review from November 6 to November 18, 2019, as a way to progress identified issues that needed to be addressed prior to the approval of the ED in December 2019.

Exposure Period

6. Staff proposes releasing the document before 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

7. The IPSASB is asked to:

   - Approve [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations,* for comment; and
   - Confirm an exposure period ending August 31, 2020.

Agenda Item 8.3.1

[draft] ED 71, Revenue without Performance Obligations

Review Instructions

ED 71 – Revenue without Performance Obligations

REVIEW INSTRUCTIONS FOR ED 71

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 71:

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

      (i) A significant portion of ED 71 is based on text from the current version of IPSAS 23.

         a. IPSAS 23 based text has been shaded Grey;

         b. Changes made to in-period review version of ED 71 are tracked.

      (ii) Some original paragraphs were reviewed by the IPSASB at its September 2019 meeting.

         a. Reviewed original text has been shaded Orange; and

         b. Changes made to in-period review version of ED 71 are tracked.

      (iii) Paragraphs which do not have any shading are new since the September 2019 meeting.

         a. Reviewers are asked to review these paragraphs in detail for technical accuracy and consistency with the IPSASB's decisions from previous meetings; and

         b. Changes made to in-period review version of ED 71 are tracked.

Exposure Draft 71
[MONTH] [YEAR]
Comments due: [DATE]

IPSAS®

Proposed International Public Sector Accounting Standard ®

Revenue without Performance Obligations

IPSASB International Public Sector Accounting Standards Board®

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

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

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, *Revenue without Performance Obligations*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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

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

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

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about revenue without performance obligations.

Guide for Respondents

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

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

Specific Matter for Comment 1: (Paragraphs 17-24)

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue with Performance Obligations,* a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?

Specific Matter for Comment 2: (Paragraph 56)

Do you agree sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, why not?

Specific Matter for Comment 3: (Paragraphs 73-74)

Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, why not?

Specific Matter for Comment 4: (Paragraphs 73-75)

Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, why not?

Specific Matter for Comment 5: (Paragraphs 114-124)

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about the revenue transaction? If not, why not?

Specific Matter for Comment 6: (Paragraphs BC19-BC22)

Do you agree with the IPSASB's proposals for Capital Transfers rather than using the requirements of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* (see paragraphs BC19-BC22)?

ED 71, *REVENUE WITHOUT PERFORMANCE OBLIGATIONS*

CONTENTS

Paragraph

Objective 1-2

Scope 3-10

Contributions from Owners 8-9

Hybrid Transactions 10

Definitions 11-31

Revenue 13-14

Enforceable Activities and Eligible Expenditure 15-28

Taxes 29-31

Analysis of the Initial Inflow of Resources from Transactions without Performance Obligations 32

Recognition of Assets Arising from Resource Inflows 33-44

Contingent Assets 44

Transfers with Present Obligations 45-76

Recognition of Liabilities 45-52

Recognition of Revenue 53-56

Measurement of Revenue 57-70

Liabilities on Initial Recognition 71-74

Subsequent Measurement of Receivables 75-76

Transfers without Present Obligations 77-80

Recognition of Revenue 77-78

Measurement of Revenue 79-80

Application of Principles and Requirements 81-113

Taxes 81-86

The Taxable Event or Equivalent Event for Other Compulsory Contributions and Levies 87-88

Advance Receipts of Taxes 89

Measurement of Assets Arising from Taxation Transactions and Other Compulsory Contribution and Levy Transactions 90-93

Measurement of Taxes with Long Collection Periods 94

Expenses Paid Through the Tax System and Tax Expenditures 95-99

Other Transfers……100
Recognition of Revenue from Capital Transfers……101-102
Services in-kind……103-109
Pledges……110
Advance Receipts of Transfers……111
Concessionary Loans……112-113
Disclosures……114-124
Effective Date and Transition……125-134
Effective Date……125-126
Transition……127-134
Application Guidance
Amendments to other IPSAS
Basis for Conclusions
Illustrative Examples

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 ~~prescribe requirements for the financial reporting~~ of revenue and cash flows arising from transactions without performance obligations. ~~(as defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*)), other than from transactions that give rise to a public sector combination. This [draft] Standard deals with issues that need to be considered in recognizing and measuring revenue from transactions without performance obligations, including the identification of contributions from owners.~~

~~1.~~2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity (transfer recipient) shall recognize revenue to extent it has satisfied all present obligations associated with the transaction. An entity (transfer recipient) shall consider the terms of the arrangement, and all relevant facts and circumstances, when applying this [draft] Standard.

Scope

~~2.~~3. **An entity (transfer recipient) that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue from transactions without performance obligations. This [draft] Standard does not apply to:**

(a) **Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70))~~A public sector combination that is a non-exchange transaction~~;**

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

(c) **A public sector combination that is a non-exchange transaction ~~Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70))~~; and**

(d) **The accounting for contributions from owners; and~~.~~**

(e) **Lease contracts within the scope of IPSAS 13, *Leases*[1];**

(f) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[2];**

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

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

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

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

(i) **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;***

(j) **Changes in the value of other current assets;**

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

~~(d)~~(l) **The extraction of mineral resources.**

~~3.~~4. This [draft] Standard addresses revenue arising from transactions without performance obligations. This includes transactions arising from binding arrangements and those not arising from a binding arrangement. Revenue arising from transactions with performance obligations is addressed in [draft] IPSAS [X] (ED 70). While revenues received by public sector entities arise from both transactions with and without performance obligations, the majority of revenue of governments and other public sector entities is typically derived from transactions without performance obligations, such as:

(a) Taxes; and

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

5. The distinguishing factor between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation is this [draft] Standard, is whether a promise to deliver goods or services to the purchaser or a third-party beneficiary exists. A performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement.

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

~~4.~~7. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Public sector combinations are accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

Contributions from Owners

~~5.~~8. Contributions from owners are defined in IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 9 indicates the form that contributions from

owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the ~~reporting~~ entity (transfer recipient) will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

~~6.~~9. A contribution from owners may be evidenced by, for example:

(a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;

(b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or

(c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

Hybrid Transactions

~~7.~~10. Where an asset is acquired by means of a transaction that has components with performance obligations and components without performance obligations, the entity (transfer recipient) recognizes the revenue from the component with performance obligations according to the principles and requirements of [draft] IPSAS [X] (ED 70). The revenue component without performance obligations is recognized according to the principles and requirements of this [draft] Standard. In determining whether a transaction has identifiable performance obligation components, professional judgment is exercised. Where it is not possible to distinguish between the components with performance obligations and the components without performance obligations, the transaction is accounted for in accordance with [draft] IPSAS [X] (ED 70). ~~[Draft] IPSAS [X] (ED 70) paragraphs AG70-AG71 provide additional guidance.~~

Definitions

~~8.~~11. **The following terms are used in this [draft] Standard with the meanings specified:**

A capital transfer is an inflow, that arises from a binding arrangement, of cash or another asset with a specification that the transfer recipient acquires or constructs a non-current non-financial asset that will be controlled by the transfer recipient.

Eligible expenditure is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement.

An enforceable activity is an action specified in a binding arrangement that must be completed by a transfer recipient.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from transactions without performance obligations, other than contributions from owners. Transfers include taxes.

A **transfer provider is an entity that provides a good, service or other asset to another entity without receiving any good, service or other asset in return.**

A **transfer recipient is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity.**

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

~~9.~~12. The following terms are defined in [draft] IPSAS [X] (ED 70) and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

A binding arrangement;

Control of an Asset:

A performance obligation; and

A third-party beneficiary.

Revenue is defined in IPSAS 1, *Presentation of Financial Statements*

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

Revenue

~~10.~~13. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the ~~reporting~~ entity (transfer recipient), which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

~~11.~~14. Where an entity (transfer recipient) incurs some cost in relation to revenue arising from a transaction without performance obligations, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a ~~reporting~~ entity (transfer recipient) is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (transfer provider), those costs are recognized separately from revenue arising from the transfer of the item of, plant. Delivery and

installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17, *Property, Plant, and Equipment*.

Enforceable Activities and Eligible Expenditure

~~12.~~15. Goods, services, or other assets may be transferred by a transfer provider with the expectation and/or understanding that they will be used in a particular way and, therefore, that the entity (transfer recipient) will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the entity (transfer recipient), these terms require either an enforceable activity to be completed or eligible expenditure to be incurred.

~~13.~~16. Enforceable activities and eligible expenditure are enforceable through legal or equivalent means. If a term in law or regulation or other binding arrangement is unenforceable, it is not an enforceable activity or eligible expenditure as defined by this [draft] Standard. 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 vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an arrangement creates enforceable rights and obligations. Constructive obligations are different ~~do not arise~~ from enforceable activities or the requirement to incur eligible expenditure, as constructive obligations do not arise from binding arrangements. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, establishes requirements for the recognition and measurement of constructive obligations.

Present Obligation

~~14.~~17. Within the context of this [draft] Standard, an enforceable activity, or a requirement to incur an eligible expenditure that arise from binding arrangements are both present obligations. ~~The~~A present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.

~~15.~~18. A present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid an outflow or resources.

Enforceable Activity

~~16.~~19. An enforceable activity is a particular action, stated in a binding arrangement, the transfer provider can legally compel the entity (transfer recipient) to perform with the transfer provided, such as construct a hospital or conduct a form of research. An enforceable activity is imposed by the transfer provider as part of the terms of the transfer creating a present obligation for the entity (transfer recipient).

~~17.~~20. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer in the delivery of the enforceable activities or either return them to the transfer provider or incur another form of penalty

~~18.~~21. An enforceable activity does not meet the requirements for a performance obligation as defined in [draft] IPSAS [X] (ED 70) because there is no requirement for the transfer recipient to transfer distinct goods or services to either the transfer provider or a third-party beneficiary. For example, a transfer recipient may receive funding to conduct a research project whereby any intellectual property obtained from that research will remain under the control of the transfer recipient.

Eligible Expenditure

~~19.~~22. A binding arrangement may require a transfer to be used by an entity (transfer recipient) for a particular purpose and incur eligible expenditure for that purpose, but does not have identifiable enforceable activities.

~~20.~~23. Where a requirement to incur eligible expenditure exists in a binding arrangement, the entity (transfer recipient) incurs a present obligation to use the transfer as directed. The transfer recipient is unable to avoid the outflow of resources as it is required to use the transfer on eligible expenditure or else either return the transfer to the transfer provider or incur another form of penalty.

~~21.~~24. There is no requirement for the transfer recipient to transfer distinct goods or services to the transfer provider or a third-party beneficiary. Eligible expenditure must be incurred by the transfer recipient and be able to be identified and verifiable so that the transfer provider can determine that the transfer was used as intended.

Enforceability of binding arrangements – Substance over form

~~22.~~25. To satisfy the criteria for recognition as a liability, it is necessary that the transfer recipient cannot avoid an outflow of resources and the transaction must be enforceable. Therefore, completion of an enforceable activity or incurring eligible expenditure constitutes an outflow of resources, as does a return of resources or the imposition of some other penalty in the event that the transfer recipient breaches the terms of the binding arrangement.

~~23.~~26. In determining whether a binding arrangement is enforceable the transfer recipient considers whether the transfer provider would enforce the arrangement in the event of a breach. If past experience with the transfer provider indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. However, if the transfer recipient has no experience with the transfer provider, or has not previously breached a binding arrangement that would prompt the transfer provider to enforce the arrangement, and it has no evidence to the contrary, it would assume that the transfer provider would enforce the binding arrangement and, therefore, enforceability has substance.

~~24.~~27. As an administrative convenience, a transfer may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The ~~reporting~~ entity (transfer recipient) will still recognize the gross amounts in its financial statements: that is, the entity (transfer recipient) will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

~~25. In some cases, an asset may be received by the transfer recipient subject to the requirement that it be returned to the transfer provider if a specified future event does not occur. This may occur where, for example, a national government provides funds to a provincial government entity (transfer recipient) subject to the requirement that the entity (transfer recipient) raise a matching contribution.~~

~~In these cases, a return obligation does not arise until such time as it is expected that the requirement will be breached, and a liability is not recognized until the recognition criteria have been satisfied.~~

~~26.~~28. However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this [draft] Standard, advance receipt refers to resources received prior to a taxable event or an arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the arrangement has not yet become binding. Where such transfers are in the nature of a transaction with performance obligations, they will be dealt with in accordance with [draft] IPSAS [X] (ED 70).

Taxes

~~27.~~29. Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 11 as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Noncompulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of transactions without performance obligations. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

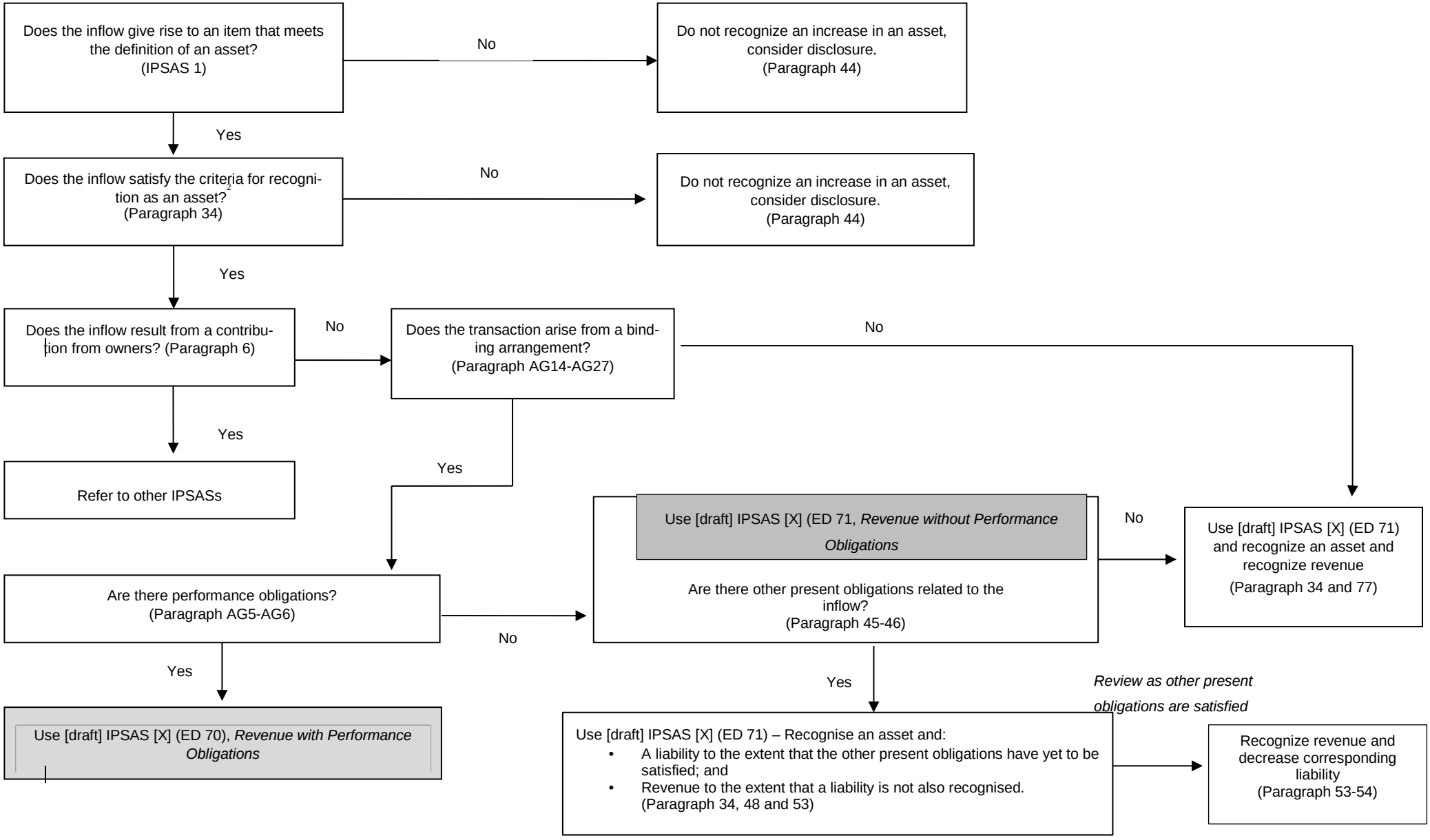
~~28.~~30. Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

~~29.~~31. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Analysis of the Initial Inflow of Resources from Revenue Transactions without Performance Obligations

~~30.~~32. An entity (transfer recipient) will recognize an asset arising from a transaction without performance obligations when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity (transfer recipient) decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity (transfer recipient) will recognize as a liability. These obligations will be either a requirement to complete enforceable activities or incur eligible expenditure. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed, and any contributions from owners are accounted for separately. Consistent with the approach set out in this [draft] Standard, entities will analyze transactions without performance obligations to determine which elements of general purpose

financial statements will be recognized as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity (transfer recipient) undertakes when there is an inflow of resources to determine whether revenue arises. The following flowchart identifies the relevant paragraphs in this [draft] Standard related to asset, liability and revenue recognition and measurement. Requirements for the treatment of transactions are set out in paragraphs 33–124.



* The flowchart is illustrative only, it does not take place of this Standard. It is provided as an aid to interpreting this Standard.

* In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

* In determining whether the entity has satisfied all of the present obligations, the application of the definition of conditions on a transferred asset, and the criteria for recognizing a liability, are considered.

~~Recognition~~

Recognition of Assets Arising from Resource Inflows

~~31.~~33. Assets are defined in IPSAS 1 as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

~~32.~~34. **An inflow of resources from a transaction without performance obligations, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:**

(a) **It is probable that the future economic benefits or service potential associated with the asset will flow to the entity (transfer recipient); and**

(b) **The ~~fair~~ value of the asset can be measured reliably.**[1]

Control of an Asset

~~33.~~35. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's (transfer recipient's) assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 103, entities may, but are not required, to recognize services in-kind.

~~34.~~36. An announcement of an intention to transfer resources to a public sector entity (transfer recipient) is not of itself sufficient to identify resources as controlled by a transfer recipient. For example, if a public school were destroyed by a forest fire and a government (transfer provider) announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where an agreement is required before resources can be transferred, an entity (transfer recipient) will not identify the resources as controlled until such time as the agreement is binding, because the entity (transfer recipient) cannot exclude or regulate the access of the transfer provider to the resources. In many instances, the entity (transfer recipient) will need to establish enforceability of its control of resources before it can recognize an asset. If an entity (transfer recipient) does not have an enforceable claim to resources, it cannot exclude or regulate the transfer provider's access to those resources.

Appropriations

~~35.~~37. When a binding arrangement specifies that the resources to be transferred to the entity (transfer recipient) by a transfer provider are subject to the appropriation being approved, the entity (transfer recipient) must consider substance over form. The limitation (that the resources to be transferred are subject to the appropriation being approved) has substance if the transfer provider is prohibited from transferring the resources until the appropriation is approved. Paragraphs AG28-AG32 provides additional guidance.

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[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Past Event

~~36.~~38. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

~~37.~~39. An inflow of resources is probable when the inflow is more likely than not to occur. The entity (transfer recipient) bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transfer provider. For example, where (a) a government (transfer provider) agrees to transfer funds to a public sector entity (transfer recipient), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

~~38.~~40. An entity (transfer recipient) shall account for an asset that is within the scope of this [draft] Standard only when it is probable that the entity (transfer recipient) will collect the transfer revenue. In evaluating whether collectability of an inflow is probable, an entity (transfer recipient) shall consider only the transfer provider's ability and intention to pay. The amount of the inflow to which the entity (transfer recipient) expects to collect from the transfer provider may be less than the amount stated in the binding arrangement if the inflow is variable (see paragraph 62).

41. An entity (transfer recipient) shall continue to assess the arrangement to determine whether the criteria in paragraph 40 are subsequently met.

42. When an arrangement with a transfer provider within the scope of this [draft] Standard does not meet the criteria in paragraph 40 and an entity receives a transfer from the transfer provider, the entity (transfer recipient) shall recognize the inflow received as transfer revenue only when either of the following events has occurred:

(a) The entity (transfer recipient) has no present obligation to perform an enforceable activity or incur an eligible expenditure; or

(b) The arrangement has been terminated and the inflow received from the transfer provider is non-refundable.

~~39.~~43. An entity (transfer recipient) shall recognize the inflow received from a purchaser as a liability until one of the events in paragraph 42 occurs or until the criteria in paragraph 40 are subsequently met (see paragraph 41). Depending on the facts and circumstances relating to the arrangement, the liability recognized represents the entity's (transfer recipient) present obligation to either perform an enforceable activity or incur an eligible expenditure. In either case, the liability shall be measured at the amount of inflow received from the transfer provider.

Contingent Assets

~~40.~~44. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

Transfers with Present Obligations

Recognition of ~~Present Obligations Recognized as~~ Liabilities

~~41.~~45. **A present obligation arising from a transaction without a performance obligation that meets the definition of a liability shall be recognized as a liability when, and only when:**

(a) **It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and**

(b) **A reliable estimate can be made of the amount of the obligation.**

Present Obligation

~~42.~~46. A present obligation is a duty to act or perform in a certain way, and may give rise to a liability in respect of any transaction without a performance obligation. Present obligations may be imposed by requirements in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

~~43.~~47. In many instances, taxes are levied and assets are transferred to public sector entities in transactions without performance obligations pursuant to laws, regulation, or other binding arrangements that impose requirements that they be used for particular purposes. For example:

(a) Taxes, the use of which is limited by laws or regulations to specified purposes;

(b) Transfers, established by a binding arrangement that require enforceable activities or eligible expenditure:

(i) From national governments to provincial, state or local governments;

(ii) From state/provincial governments to local governments;

(iii) From governments to other public sector entities;

(iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

(v) From donor agencies to governments or other public sector entities.

48. An entity (transfer recipient) shall recognize ~~for~~ a liability that is within the scope of this [draft] Standard only when it has a present obligation as noted in paragraph 46. In evaluating whether a present obligation exists, an entity (transfer recipient) considers whether they are required to perform an enforceable activity or incur an eligible expense.

~~44.~~49. In the normal course of operations, an entity (transfer recipient) may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognized until the taxable event occurs.

~~45.~~50. If an entity (transfer recipient) receives resources prior to the existence of a binding arrangement, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

Enforceable Activities or Eligible Expenditure on a Transferred Asset

51. Enforceable activities or a requirement for eligible expenditure to be incurred on a transferred asset give rise to a present obligation on initial recognition that will be recognized in accordance with paragraph 45.

Past Event

46.52. Public sector entities obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. When the receipt of these assets results in the entity (transfer recipient) having to satisfy a present obligation, the entity recognizesd a liability. Therefore, the past event that gives rise to an unavoidable obligation is a taxable event or a transfer, when that event gives rise to a present obligation. Transactions or events expected to occur in the future do not in themselves give rise to present obligations.

Recognition of Revenue ~~from Transactions without Performance Obligations~~

47.53. **An inflow of resources from a transaction without performance obligations recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

48.54. **As an entity (transfer recipient) satisfies a present obligation recognized as a liability in respect of an inflow of resources from a transaction without performance obligations recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.**

49.55. When an entity (transfer recipient) recognizes an increase in net assets as a result of a transaction without performance obligations, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the transaction without performance obligations, when the liability is subsequently reduced, because the taxable event occurs or an enforceable activity is satisfied or eligible expenditure is incurred, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.

50.56. The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement (if any) and their settlement. For example, if a binding arrangement has enforceable activities, the entity (transfer recipient) will recognize revenue as those enforceable activities are completed. Similarly, if a binding arrangement requires the resources to be consumed on eligible expenditure, the entity (transfer recipient) will recognize revenue as those eligible expenses are incurred.

~~Measurement~~

~~Assets on Initial Recognition~~Measurement of Revenue

~~51. Cash Transfer~~

52.57. **A~~n~~ transfer in a revenue ~~cash asset acquired through a~~ transaction without performance obligations shall initially be measured by the entity (transfer recipient) at its transaction price as at the date ~~of acquisition~~in which the criteria for asset recognition is ~~sastified~~satisfied (see paragraphs 58-70 below) .**

~~Non-Cash Transfer~~

~~**A non-cash asset acquired through a transaction without performance obligations shall initially be measured at its fair value as at the date of acquisition.**~~

~~DETERMINING THE TRANSACTION PRICE~~Determining the Transaction Price

53.58. An entity shall consider the terms of the transaction and its customary practices to determine the transaction price. The transaction price is the amount of inflows of future economic benefit or service

potential to which an entity expects to be transferred in a revenue transaction without performance obligations. The inflow in a transaction may include fixed amounts, variable amounts, or both.

~~54.~~59. Credit risk is not considered when determining the amount to which the entity (transfer recipient) expects to receive. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41, Financial Instruments.

~~55.~~60. The nature, timing and amount of the transfer affect the estimate of the transaction price. When determining the transaction price, an entity (transfer recipient) shall consider the effects of all of the following:

(a) Variable inflows (see paragraphs 62-65 and 68); ~~and~~

(b) Constraining estimates of variable inflows (see paragraphs 66-67); and

~~(b)~~(c) Non-cash consideration (see paragraphs 69–70).

~~56.~~61. For the purpose of determining the transaction price, an entity (transfer recipient) shall assume that the inflow will be transferred to the entity (transfer recipient) in accordance with the terms of the transaction.

Variable Inflows

~~57.~~62. If the inflow in the transaction includes a variable amount, an entity (transfer recipient) shall estimate the amount of the inflow to which the entity (transfer recipient) expects to collect from the transfer provider.

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

Constraining Estimates of Variable Inflows

~~58.~~64. An entity (transfer recipient) shall estimate an amount of variable inflows by using either of the following methods, depending on which method the entity (transfer recipient) expects to better predict the amount of inflows to which it expects to receive:

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

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the transaction). The most likely amount may be an appropriate estimate of the amount of variable inflows if the transaction has only two possible outcomes (for example, an entity (transfer recipient) either completes construction of infrastructure on schedule or not).

~~59.~~65. An entity (transfer recipient) shall apply one method consistently when estimating the effect of an uncertainty on an amount of variable inflows which the entity (transfer recipient) expects to receive. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity (transfer recipient) and shall identify a reasonable number of

possible consideration amounts. The information that an entity (transfer recipient) uses to estimate the amount of variable inflows would typically be similar to the information that the entity's (transfer recipient) management uses to estimate the amount receivable.

Constraining Estimates of Variable Inflows

~~60.~~66. An entity (transfer recipient) shall measure revenue without performance obligations in accordance with paragraph 58 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable inflow is subsequently resolved.

~~61.~~67. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable inflow is subsequently resolved, an entity (transfer recipient) shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

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

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

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

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

Reassessment of Variable Inflows

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

Non-Cash Transfers

69. **To determine the transaction price for transfers in a form other than cash, an entity (transfer recipient) shall measure the non-cash inflow (or promise of non-cash inflow) at fair value as at the date of acquisition.**

70. The fair value of the non-cash inflow may vary because of the form of the inflow. If the fair value of the non-cash inflow promised by a transfer provider varies for reasons other than only the form of the inflow, an entity (transfer recipient) shall apply the requirements in paragraphs 64~~55~~–65~~57~~.

Liabilities on Initial Recognition

~~62.~~71. **The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.**

~~63.~~72. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at

the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

Allocating Revenue from Enforceable Activities

~~64.~~73. Revenue from enforceable activities is recognized as enforceable activities are completed. The amount of revenue recognized shall be equivalent to the amount of resources consumed in completing that enforceable activities

Allocating Revenue from incurring Eligible Expenditure

~~65.~~74. Revenue from incurring eligible expenditure is recognized as that eligible expenditure is incurred. The amount of revenue recognized shall be equivalent to the amount of resources consume in incurring eligible expenditure.

Subsequent Measurement of Receivables

~~66. Contractual Receivables~~

75. 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

~~(a)~~(b) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.~~Contract receivables recognized in accordance with this [draft] Standard meet the definition of a financial asset and shall be accounted for in accordance with the requirements in IPSAS 41, *Financial Instruments*.~~

~~67. Non-Contractual Receivables~~

~~68. An asset that is a non-contractual receivable shall be measured subsequently at amortized cost in accordance with paragraphs 69–70 of IPSAS 41 when:~~

~~69. The entity's (transfer recipient) objective is to hold the non-contractual receivable in order to collect the cash flows; and~~

~~70. 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.~~

76. Where a ~~non-contractual~~ receivable not in the scope of IPSAS 41 as described in paragraph 75(b) does not satisfy the requirements in paragraph ~~70~~40 of IPSAS 41, it shall be subsequently measured at fair value. Changes in fair value are recognized in surplus or deficit.

~~Revenue from Transactions~~Transfers without P~~resent~~erformance Obligations

Recognition of Revenue

77. **When an entity (transfer recipient) recognizes an inflow of resources as an asset for a transaction with –no present obligation, revenue is recognized when the entity (transfer recipient) controls the resources transferred. ~~If an inflow of resources satifiesatisfies the definition of contribution from owners, it is not recognized as an asset or liability. a asset~~**

78. Refer to paragraphs 33–43 for further discussion on when control of resources is obtained for particular types of revenue transactions within the scope of this [draft] Standard.

Measurement of Revenue

71.79. **Revenue from transactions without performanceresent obligations shall be measured at the amount of the increase in net assets recognized by the entity (transfer recipient)**.

72.80. When, as a result of a revenue transaction without a performanceresent obligation, an entity (transfer recipient) recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 575852, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured in accordance with the requirements of paragraph 63, and the amount of the increase in net assets, if any, will be recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs, or an enforceable activity is completed or eligible expenditure is incurred, the amount of the reduction in the liability will be recognized as revenue.

Measurement of Revenue

An asset acquiredRevenue from transfers without a present recognized through a transaction without performance obligations shall initially be measured at its transaction price as at the date of acquisition (see paragraphs 54-67 below) .

Application of Principles and Requirements

Taxes

73.81. **An entity (transfer recipient) shall recognize an asset in respect of taxes and other compulsory contributions and levies when the taxable event or equivalent event for other compulsory contributions and levies occurs and the asset recognition criteria are met.**

74.82. Resources arising from taxes and other compulsory contributions and levies satisfy the definition of an asset when the entity (transfer recipient) controls the resources as a result of a past event (the taxable event or equivalent event for other compulsory contributions and levies) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes and other compulsory contributions and levies satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event or equivalent event for other compulsory contributions and levies by the taxpayer (or equivalent person or entity for other compulsory contributions or levies).

75.83. Taxation revenue and revenue from other compulsory contributions and levies arises only for the government that imposes the tax or other compulsory contribution or levy, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state agency collects income tax and other compulsory contributions and levies for the state government and several city governments, it does not recognize revenue in respect of the taxes and other

compulsory contributions and levies collected – rather, the individual governments that impose the taxes and other compulsory contributions and levies recognize assets and revenue in respect of the taxes and other compulsory contributions and levies.

~~76.~~84. Taxes and other compulsory contributions and levies do not satisfy the definition of contributions from owners, because the payment of taxes and other compulsory contributions and levies does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

~~77.~~85. Taxes and other compulsory contributions are a transaction without performance obligations because the taxpayer (or equivalent person or entity for other compulsory contributions and levies) transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer (or equivalent person or entity for other compulsory contributions and levies) may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes and other compulsory contributions and levies.

~~78.~~86. As noted in paragraph 47, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any enforceable activities or eligible expenditure relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the either the enforceable activity is completed or the eligible expenditure is incurred and the liability is reduced. However, in most cases, taxes or other contributions and levies imposed for specific purposes are not expected to give rise to a liability, because the specific purposes do not amount to an enforceable activity or eligible expenditure.

The Taxable Event or Equivalent Event for Other Compulsory Contributions and Levies

~~79.~~87. Similar types of taxes are levied in many jurisdictions. The ~~reporting~~ entity (transfer recipient) analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:

(a) Income tax is the earning of assessable income during the taxation period by the taxpayer;

(b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

(c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

(d) Customs duty is the movement of dutiable goods or services across the customs boundary;

(e) Death duty is the death of a person owning taxable property; and

(f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

~~80.~~88. Similar types of other compulsory contributions and levies occur in many jurisdictions. The ~~reporting~~ entity (transfer recipient) analyzes the law relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

(a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

(b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

(c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes

~~81.~~89. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 81, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the taxable event or equivalent event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's (transfer recipient's) entitlement to the taxes or equivalent event for other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied (see paragraph 90), notwithstanding that the entity (transfer recipient) has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event or equivalent event for other compulsory contributions and levies occurs. When the taxable event or equivalent event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

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

~~82.~~90. Paragraph 58 requires that assets arising from taxation transactions and other compulsory contribution and levy transactions be measured at their transaction price as at the date of acquisition. Assets arising from taxation transactions and other compulsory contribution and levy transactions are measured at the best estimate of the inflow of resources to the entity (transfer recipient), which is consistent with most likely amount in paragraph 64. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions and other compulsory contribution and levy transactions that conform with the requirements of paragraph 58. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions and other compulsory contribution and levy transactions will flow to the government, and the fair value of the resultant assets.

~~83.~~91. Where there is a separation between the timing of the taxable event or equivalent event for other compulsory contributions and levies and collection of taxes contributions or levies, public sector entities may reliably measure assets arising from taxation transactions and other compulsory contribution and levy transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers (or equivalent person or entity for other compulsory contributions and levies), declarations made by taxpayers (or equivalent person or entity for other compulsory contributions and levies), and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

(a) The tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

(b) Taxpayers (or equivalent person or entity for other compulsory contributions and levies) failing to file returns on a timely basis;

(c) Valuing non-monetary assets for tax assessment purposes;

(d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

(e) The potential that the financial and political costs of rigorously enforcing the tax laws (or laws relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;

(f) The tax law permitting taxpayers to defer payment of some taxes; and

(g) A variety of circumstances particular to individual taxes and jurisdictions.

~~84.~~92. Measuring assets and revenue arising from taxation transactions and other compulsory contribution and levy transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers (or equivalent person or entity for other compulsory contributions and levies) in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

~~85.~~93. In some cases, the assets arising from taxation transactions and other compulsory contribution and levy transactions and the related revenue cannot be reliably measured until sometime after the taxable event or equivalent event for other compulsory contributions and levies occurs. This may occur if a tax, contribution or levy base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event or equivalent event for other compulsory contributions and levies. However, there are exceptional circumstances when several reporting periods will pass before a taxable event or equivalent event for other compulsory contributions and levies results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

Measurement of Taxes with Long Collection Periods

~~86.~~94. The measurement of assets arising from taxation transactions and other compulsory contributions and levies is limited to the amount of cumulative revenue that is highly probably not to reverse in accordance with paragraph 66.

Expenses Paid Through the Tax System and Tax Expenditures

~~87.~~95. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

~~88.~~96. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a

check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

~~89.~~97. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

~~90.~~98. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

~~91.~~99. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Other Transfers

~~92.~~100. **Subject to paragraph 103, an entity (transfer recipient) shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**

Recognition of Revenue from Capital Transfers

~~93. An inflow of resources from capital transfers that do not arise from a binding arrangement shall be recognized as revenue when those resources are controlled by the entity (transfer recipient).~~

~~94.~~101. **An inflow of resources from a capital transfer, that arise from a binding arrangement, recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**

~~95.~~102. As an entity (transfer recipient) satisfies the enforceable activities or incurs eligible expenditure as set out in the binding arrangement, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

~~Notwithstanding paragraph 94, if a capital transfer agreement does not specifically identify any enforceable activities or requirement to incur eligible expenditure, revenue shall be recognized on a systematic basis that best reflects the period of consumption of the capital transfer (e.g., over~~

~~the period of construction).~~

~~For the purposes of this [draft] Standard, capital transfer shall only be applied to the procurement or construction of the non-financial asset and not for any addition obligations regarding the subsequent use of that asset.~~

Services In-kind

~~96.~~103. **An entity (transfer recipient) may, but is not required to, recognize services in-kind as revenue and as an asset.**

~~97.~~104. Although recognition of services in-kind is not required by this [draft] Standard, entities (transfer recipients) are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's (transfer recipient's) operations.

~~98.~~105. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind meet the definition of an asset because the entity (transfer recipient) controls a resource from which future economic benefits or service potential are expected to flow to the entity (transfer recipient). These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity (transfer recipient) will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

~~99.~~106. Public sector entities may be transfer recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

(a) Technical assistance from other governments or international organizations;

(b) Persons convicted of offenses may be required to perform community service for a public sector entity;

(c) Public hospitals may receive the services of volunteers;

(d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) Local governments may receive the services of volunteer fire fighters.

~~100.~~107. Some services in-kind do not meet the definition of an asset because the entity (transfer recipient) has insufficient control over the services provided. In other circumstances, the entity (transfer recipient) may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities (transfer recipients) may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 106, the entity (transfer recipient) may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity (transfer recipient) would acquire if the services in-kind were not available.

~~101.~~108. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this [draft] Standard does not require the recognition of services in-kind. Paragraph 116, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities (transfer recipients), the services provided by volunteers are not material in amount, but may be material by nature.

~~102.~~109. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity (transfer recipient). The extent to which an entity (transfer recipient) is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity (transfer recipient) that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

~~103.~~110. Pledges are unenforceable undertakings to transfer assets to the entity (transfer recipient) Pledges do not meet the definition of an asset, because the entity (transfer recipient) is unable to control the access of the transfer provider to the future economic benefits or service potential embodied in the item pledged. Entities (transfer recipients) do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity (transfer recipient), it is recognized as a gift or donation, in accordance with paragraphs AG51–AG55. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

~~104.~~111. Where an entity (transfer recipient) receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity (transfer recipient) will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the event that makes the transfer arrangement binding occurs, and all other enforceable activities under the agreement are fulfilled or eligible expenditure incurred. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Concessionary Loans

~~105.~~112. Concessionary loans are loans received by an entity (transfer recipient) at below market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41, *Financial Instruments*. An entity (transfer recipient) considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue without performance obligations that should be accounted for in accordance with this [draft] Standard.

~~106.~~113. Where an entity (transfer recipient) determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is revenue without performance obligations, an entity (transfer recipient) recognizes the difference as revenue, except if a present obligation exists, e.g., where specific requirements are imposed on the transferred assets by the transfer recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity (transfer recipient) satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

Disclosures

~~107.~~114. **An entity (transfer recipient) shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

(a) **The amount of revenue from transactions without performance obligations recognized during the period by major classes showing separately:**

(i) Taxes, showing separately major classes of taxes;

(ii) Other compulsory contributions and levies, showing separately major classes of other compulsory contributions and levies; and

(iii) Transfers, showing separately major classes of transfer revenue.

(b) **The amount of receivables recognized in respect of revenue without performance obligations;**

(c) **The amount of liabilities recognized in respect of transferred assets subject to enforceable activities or a requirement to incur eligible expenditure;**

(d) **The amount of liabilities recognized in respect of concessionary loans that are subject to requirements on transferred assets;**

(e) **The existence and amounts of any advance receipts in respect of transactions without performance obligations; and**

(f) **The amount of any liabilities forgiven.**

~~108.~~115. **An entity (transfer recipient) shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue from transactions without performance obligations;**

(b) **For major classes of revenue from transactions without performance obligations, the basis on which the ~~fair value~~transaction price of inflowing resources was measured;**

(c) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity (transfer recipient) cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;**

(d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received; and**

(e) **Qualitative and quantitative information about services in-kind that have been recognized on the face of the general purpose financial statements.**

~~109.~~116. Entities (transfer recipients) that do not recognize service in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity (transfer recipient). The extent to which an entity (transfer recipient) is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

~~110.~~117. The disclosures required by paragraphs 114 and 115 assist the ~~reporting~~ entity (transfer recipient) to satisfy the objectives of financial reporting, as set out in IPSAS 1, which is to provide information useful for decision making, and to demonstrate the accountability of the entity (transfer recipient) for the resources entrusted to it.

~~111.~~118. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's (transfer recipient's) exposure to particular revenue streams.

~~112.~~119. Enforceable activities and eligible expenditure impose limits on the use of assets, which impacts the operations of the entity (transfer recipient). Disclosure of the amount of liabilities recognized in respect of enforceable activities and eligible expenditure assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities (transfer recipients) are encouraged to disaggregate by class the information required to be disclosed by paragraph 114(c).

~~113.~~120. Paragraph 114(e) requires entities (transfer recipients) to disclose the existence of advance receipts in respect of transactions without performance obligations. These liabilities carry the risk that the entity (transfer recipient) will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgments about the entity's (transfer recipient's) future revenue and net asset position.

~~114.~~121. As noted in paragraph 91, in many cases an entity (transfer recipient) will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity (transfer recipient) is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity (transfer recipient) makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs. These disclosures assist users to make informed judgments about the entity's (transfer recipient's) future revenue and net asset position.

~~115.~~122. In the public sector, an entity (transfer recipient) may impose a cost on another party by way of constitutional authority, legally sanctioned process, or other mechanism, where the face value of the revenue without a performance obligation transaction may not always be collectible. This is common in transactions to collect taxes or fines, where the entity is aware they may not collect face value. An entity shall disclose the following:

(a) A description of the legislation or policy decision which compels the entity to satisfy the present

obligation;

(b) The amount of revenue from these transactions that was recognized after application of paragraphs 41–43 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit negotiated concession; and

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 66, or as the amount from these transactions that was not recognized as revenue, as it was considered to be an implicit negotiated concession.

~~116.~~123. Paragraph 115(d) requires entities (transfer recipients) to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transfer provider, which exposes the entity (transfer recipient) to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgments about the entity's (transfer recipient's) future revenue and net asset position.

~~117.~~124. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities (transfer recipients) may elect to recognize these services in-kind and measure them at their fair value. Paragraph 116 strongly encourages an entity (transfer recipient) to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's (transfer recipient's) objectives during the reporting period, and (b) the entity's (transfer recipient's) dependence on such services for the achievement of its objectives in the future.

Effective Date and Transition

Effective Date

~~118.~~125. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after [DD/MM/YYYY]. Earlier application is encouraged. If an entity applies this Standard for periods beginning before [DD/MM/YYYY], it shall disclose that fact and apply [draft] IPSAS [X] ED 70 and [draft] IPSAS [X] ED 72 at the same time.**

~~119.~~126. When an entity adopts the accrual basis IPSASs as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Transition

~~120.~~127. For the purposes of the transition requirements in paragraphs 128–133:

(a) The date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard; and

(b) A completed binding arrangement is a binding arrangement for which the entity has fulfilled all the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

~~121.~~128. 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 130; or

(b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 132–133.

~~122.~~129. 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 128(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

~~123.~~130. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 128(a):

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

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

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

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

(c) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the ~~fair value~~transaction price allocated to the remaining present obligations and an explanation of when the entity expects to recognize that amount as revenue

~~124.~~131. For any of the practical expedients in paragraph 130 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.

~~125.~~132. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 128(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).

~~126.~~133. 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 128(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 23; and

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

Withdrawal of Other Standards

~~127.~~134. This [draft] Standard supersedes IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).* IPSAS 23 remains applicable until [draft] IPSAS [X] (ED 71) is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 71)

AG1. This Application Guidance is organized into the following categories:

(a) Objective (paragraph AG2);

(b) Scope (paragraphs AG3−AG9);

(c) Definitions (paragraphs AG10–AG27);

(d) Revenue without Performance Obligations subject to Appropriations (paragraphs AG28–AG32);

(e) Determining the Transaction Price (paragraphs AG33)

(f) Other Transfers (paragraphs AG34-AG37)

(g) Measurement of Transferred Assets (paragraph AG41);

(h) Debt Forgiveness and Assumptions of Liabilities (paragraph AG42-AG45);

~~(i) Capital Transfers (paragraphs 0-0);~~

~~(j)~~(i) Fines (paragraphs AG46-AG47);

~~(k)~~(j) Bequests (paragraphs AG48-AG50); and

~~(l)~~(k) Gifts, Donations, including Goods In-kind (paragraphs AG51-AG55).

Objective (see paragraphs 1-2)

AG2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize revenue from transactions without performance obligations as follows:

(a) For transfers where the entity is required, by a binding arrangement, (see paragraphs AG14 -AG19), to use the resources provided to either complete an enforceable activity or to use on eligible expenditures, revenue is recognized either when an enforceable activity is completed or as eligible expenditure is incurred.

(b) For transfers that do not arise from a binding arrangement, revenue is recognized when the entity controls the resources transferred.

Scope (see paragraphs 3–10)

AG3. The scope of this [draft] Standard is limited to revenue transactions without performance obligations.

AG4. Transactions without performance obligations may or may not arise from a binding arrangement, this [draft] Standard applies to both types of transactions. Transactions without performance obligations that arise from a binding arrangement have a present obligation to either complete an enforceable activity or a requirement to incur eligible expenditure.

AG5. A performance obligation is defined at paragraph 7 of draft IPSAS]X] (ED 70), as a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct

goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary Transactions that have performance

AG6. The key distinction between a performance obligation in [draft] IPSAS [X] (ED 70) and a present obligation is this [draft] Standard is that a performance obligation requires a transfer recipient to transfer distinct goods or services to either a purchaser (transfer provider) or a third-party beneficiary. A present obligation in this [draft] Standard does not have this requirement.

AG7. In practice, an entity (transfer recipient) will consider whether it maintains control of the resources provided by the transfer provider. If the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are transferred to the transfer provider, or to a third-party beneficiary, the transaction is accounted based on the requirements of [draft] IPSAS [X] (ED 70). Where there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary or the entity (transfer recipient) directs the use of the economic benefit of the good or service then the requirements of this [draft] Standard apply.

AG8. For example, where an entity (transfer recipient) receives cash or another asset from an international financial institution (transfer provider) to provide training services on the entity's own accounting practices, the arrangement is accounted for within the scope of this [draft] Standard when the entity (transfer recipient) is able to determine who will receive the training services. Often arrangements of this nature that will be within the scope of the [draft] Standard will be where the training services are provided internally to the entity (transfer recipient). This is because the entity (transfer recipient) receives the benefit of the good or service. If the international financial institution requires the training services be delivered to the staff of the international financial institution, the arrangement would be within the scope of [draft] IPSAS [X] ED 70 as the benefit from the good or service is transferred to the transfer provider.

AG9. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding, therefore this [draft] Standard addresses accounting for:

(a) Taxes;

(b) Capital transfers; and

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

Definitions (see paragraphs 11–31)

Capital Transfer

AG10. This [draft] Standard defines a capital transfer as a transaction, that arises from a binding arrangement, where a transfer provider provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-current non-financial asset that will be controlled by the transfer recipient. A capital transfer does not impose a performance obligation (as defined by [draft] IPSAS [X] (ED 70) on the transfer recipient because there is no requirement to transfer the procured non-financial asset to either the transfer provider or a third-party beneficiary and therefore it does not meet the requirements of a performance obligation.

Eligible Expenditure

AG11. This [draft] Standard defines eligible expenditure as an outflow of resources incurred in accordance with the obligations in a binding arrangement. A transfer, that arises from a binding arrangement may be provided with the requirement that the transfer recipient use the resources in furthering the entity's objectives, but the requirement does not meet the requirements to be classified as an enforceable activity or a performance obligation as defined in [draft] IPSAS [X] (ED 70). For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and therefore the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditure. Revenue would be recognized as these eligible expenditures are incurred.

AG12. The transfer provider needs to be able to confirm that all expenditure incurred was eligible and therefore the transfer recipient needs to keep appropriate documentation to show that the expenditure was incurred by the transfer recipient and for the purpose intended.

Enforceable Activity

AG13. This [draft] Standard defines an enforceable activity as an action specified in a binding arrangement that must be completed by a transfer recipient. An enforceable activity differs from a performance obligation because there is no requirement to transfer any good or service to the transfer provider or a third-party beneficiary. For example, a transfer provider provides funding to a government science agency (transfer recipient) to conduct research and development into a plant-based meat replacement. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the transfer provider requires the transfer recipient to report back at each stage. Each of these stages constitutes an enforceable activity and revenue would be recognized as they are completed and for the amount incurred in completing that enforceable action.

Binding Arrangement

AG14. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. This [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers enforceable rights and obligations on all the parties to the arrangement. In the public sector, an arrangement is enforceable when the entity (the transfer recipient) and the transfer provider are able to enforce the rights and obligations through legal or equivalent means.

AG15. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as equivalent means).

AG16. For an arrangement to be enforceable through 'equivalent means', the presence of a mechanism outside the legal systems that establishes the right of the transfer provider to oblige the entity (transfer recipient) to complete the agreed enforceable activity, incur eligible expenditure or be subject to remedies for non-performance must exist. Similarly, the presence of a mechanism outside the legal systems that establishes the right of the entity (transfer recipient) to oblige the transfer provider to pay the agreed consideration is required.

AG17. An entity considers the substance rather than the legal form of an arrangement in determining whether it is enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both the entity (the transfer recipient) and the transfer provider; and

(b) Remedies for non-performance by the either party which can be enforced by the other party through legal or equivalent means.

AG18. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG19. To be considered a binding arrangement for the purposes this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG20 - AG27.

Enforceability

AG20. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the entity receiving the consideration (the transfer recipient).

AG21. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence.

AG22. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to complete an enforceable activity or incur eligible expenditure.

AG23. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of legislative authority were detailed in the binding arrangement as a means of enforcing the satisfaction of enforceable activities or to use funding on eligible expenses by an entity, this may result in a legislative enforcement mechanism.

AG24. Other forms of enforceability by ‘equivalent means’ may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to complete enforceable activities may be enforceable. Similarly, a directive given by a minister or government department to an entity (a

transfer provider) controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

AG25. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other entity (the transfer provider). In general, the transfer provider's ability to reduce or withhold future funding to which the entity (transfer recipient) is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the transfer provider to provide such funding. However, if the entity (transfer recipient) was presently entitled to funding in the future (through another binding arrangement) then this could be considered a valid enforcement mechanism.

AG26. When determining if a reduction of future funding would be an enforcement mechanism, the entity (the transfer recipient) shall apply judgment based on the facts and circumstances.

AG27. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient under which both parties have rights and obligations.

Revenue without Performance Obligations Subject to Appropriations (see paragraph 37)

AG28. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transaction without performance obligations may specify that any future transfer is subject to the appropriation being approved.

AG29. In accordance with paragraphs 37, an entity (the transfer recipient) considers substance over form in determining the effect of such a limitation. In some jurisdictions, a transfer provider may be prohibited from transferring the promised resources unless and until the legislature or similar authority has authorized the appropriation. In such circumstance, an entity (the transfer recipient) considers that the limitation (that the future transfer is subject to the appropriation being approved) has substance. In other jurisdictions, a transfer provider may be not be prohibited from transferring the promised resources and may have a legal obligation to transfer the resources as a result of the binding arrangement. In such circumstances, the term of the binding arrangement that states that the future transfer is subject to the appropriation being approved has the form of a limitation, but not the substance.

AG30. In some jurisdictions, the appropriation process may have more than one stage. A limitation has substance if, at any point in the process, the transfer provider is prohibited from transferring the promised resources until approval is given. Authorization of the appropriation occurs, in substance, at the point at which the transfer provider is no longer prohibited from transferring the promised resources.

AG31. Where a future transfer is subject, in substance to the appropriation being approved, an entity (the transfer recipient) shall not recognize an asset for the transfer without performance obligations prior

to the appropriation being approved. Until the appropriation is approved, the binding arrangement is not enforceable, as until this point, there is no legal obligation. A constructive obligation, as defined in IPSAS 19, does not arise as

(a) The transfer recipient will not have a valid expectation that a transfer will be made ahead of the appropriation being made; and

(b) The transfer recipient or the legislative body can avoid the transfer by not approving the appropriation.

AG32. Transactions without performance obligations may be made as a series of transfers. Where these are subject, in substance, to annual appropriations, approval of an appropriation will give rise to an asset for the current year's transfer only, subject to the recognition criteria having been met. No asset for transfers beyond the current year arises because these will be subject to further appropriations.

Determining the Transaction Price (paragraphs 58-68)

AG33. An entity (transfer recipient) shall apply the requirements in paragraphs 58-68 (including the requirements for constraining measurement in paragraphs 66-67) to determine the amount of revenue to which the entity expects to be entitled. For any revenue for which an entity does not believe it is highly probable that a significant reversal in the amount, the entity shall not recognize revenue. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in order to determine whether the threshold for measurement has been achieved.

~~**Since estimating revenue is only required once the entity can determine the transaction amount and how much it is likely to collect. This reduces volatility in revenue, as it is unnecessary to reverse estimates in future periods, which is consistent with ED 70 and better enables users to understand the entity's revenue position.**~~**Other Transfers (paragraphs 100-113)**

Other Transfers (paragraphs 100-113)

AG34. **Subject to paragraph 103, an entity (transfer recipient) shall recognize an asset in respect of revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**

AG35. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without requiring a transfer of distinct goods or services to the transfer provider or a third-party beneficiary in return, and are not taxes as defined in this [draft] Standard.

AG36. Transfers satisfy the definition of an asset when the entity (transfer recipient) controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their ~~fair value~~transaction price can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity (transfer recipient) decreases the carrying amount of the liability.

AG37. An entity (transfer recipient) obtains control of transferred resources either when the resources have been transferred to the entity (transfer recipient), or the entity (transfer recipient) has an enforceable claim against the transferor provider. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity (transfer recipient) promises to transfer resources, but fails to do so. Consequently, only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the entity (transfer recipient) cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

AG38. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

AG39. Transfers satisfy the definition of a transactions without performance obligations because the transfer provider provides resources to the entity (transfer recipient) without requiring the entity (transfer recipient) to transfer distinct goods or services to the transfer provider or a third-party beneficiary. If an agreement requires that the entity (transfer recipient)) is to transfer distinct goods or services to the transfer provider or a third-party beneficiary, the agreement does not give rise to a transaction without a performance obligation, but a binding arrangement with performance obligations that should be accounted for under [draft] IPSAS [X] (ED 70).

AG40. An entity (transfer recipient) analyzes all requirements contained in an agreement to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets (see paragraph 57)

AG41. As required by paragraph 57, transferred assets are measured at their ~~fair value~~transaction price as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through transactions without performance obligations are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at ~~fair value~~their transaction price as at the date of acquisition in accordance with paragraph 58 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

AG42. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

AG43. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG44. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 8–9.

AG45. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

~~**Capital Transfers (see paragraphs 92-96)**~~

~~**Capital transfers may be given with the requirement that the transfer recipient uses the non-financial asset procured for a particular purpose. For example, a capital transfer may be provided for a local government entity to build an early learning center that must be used as such for 10 years. Therefore, this may indicate that there are two obligations in the binding arrangement, firstly to build the early learning center and then secondly to use that as an early learning center for 10 years.**~~

~~**Applying resources from a capital transfer to a requirement to use the procured non-financial asset may result in revenue recognition being deferred for long period or even never fully recognized particularly if the non-financial asset is required to be used in perpetuity. Therefore this [draft] Standard, requires that capital transfers be accounted for only for the procurement of the non-financial asset and not for any additional obligations regarding the use of the asset.**~~

Fines

AG46. Fines are economic benefits or service potential received or receivable by a public sector entity (transfer recipient), from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG47. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 34. As noted in paragraph 13, where an entity (transfer recipient) collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity (transfer recipient).

Bequests

AG48. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity (transfer recipient) has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

AG49. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity (transfer recipient), and the transaction price~~fair value~~ of the assets can be measured reliably. Determining

the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity (transfer recipient) receiving any assets. The entity (transfer recipient) will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity (transfer recipient).

AG50. The transaction price~~fair value~~ of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG53. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction price~~fair value~~ of the asset bequeathed to the entity (transfer recipient), and this amount may be available to the entity (transfer recipient). Bequests are measured at the transaction price~~fair value~~ of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG51. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. The transfer provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 103-109 below.

AG52. Goods in-kind are tangible assets transferred to an entity (transfer recipient) in a transaction without performance obligations, but may be subject to enforceable activities. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG53. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity (transfer recipient) and the transaction price~~fair value~~ of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity (transfer recipient).

AG54. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received with no binding arrangement, revenue is recognized immediately. If enforceable activities are attached, a liability is recognized, which is reduced and revenue recognized as the enforceable activities are satisfied.

AG55. On initial recognition, gifts and donations including goods in-kind are measured at their transaction price~~fair value~~ as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the transaction price~~fair value~~ will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88, 94(b) and 135 are amended and paragraph 153O is added. New text is underlined, and deleted text is struck through.

…

Structure and Content

…

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) Property, plant, and equipment;

(b) Investment property;

(c) Intangible assets;

(d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));

(e) Investments accounted for using the equity method;

(f) Inventories;

(g) Recoverable from ~~non-exchange~~ revenue transactions without performance obligations (taxes and transfers):

…

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

94**.** The detail provided in subclassifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example.

(a) Items of property, plant, and equipment are disaggregated into classes in accordance with IPSAS 17;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions without performance obligations, receivables from related parties, prepayment, and other amounts;

…

Disclosure of Accounting Policies

135. Each entity considers the nature of its operations and the policies that the user of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of ~~non-exchange~~ revenue without performance obligations. When an entity has significant

foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

…

Effective Date

…

153O.Paragraphs 88, 94(b) and 135 ~~was~~ ~~were~~ amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month], [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 12, Inventories

Paragraphs 16 and 31 are amended and paragraph 51F is added. New text is underlined, and deleted text is struck through.

…

Measurement of Inventories

…

16. **Where inventories are acquired through a ~~non-exchange~~ revenue transaction without performance obligations, their cost shall be measured at their fair value as at the date of acquisition.**

…

Techniques for the Measurement of Cost

…

31. Inventories may be transferred to the entity by means of a ~~non-exchange~~ revenue transaction without performance obligations. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired.

…

Effective Date

…

51F. Paragraphs 16 and 31 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance*

Obligations issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 27 are 32 amended and paragraph 101H is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an investment property is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured at its fair value as at the date of acquisition.**

…

32. An investment property may be acquired through a ~~non-exchange~~ revenue transaction without performance obligations. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

…

Effective Date

…

101H. Paragraphs 27 and 32 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] ED 71 at the same time.

…

Amendments to IPSAS 17, Property, Plant, and Equipment

Paragraphs 27 and 28 are amended and paragraph 107P is added. New text is underlined, and deleted text is struck through.

…

Measurement at Recognition

…

27. **Where an asset is acquired through a ~~non-exchange~~ revenue transaction without performance obligations, its cost shall be measured as its fair value as at the date of acquisition.**

28. An item of property, plant and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads, and paths in the development. An asset may also be acquired through a ~~non-exchange~~ revenue transaction without performance obligations by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

…

Effective Date

…

107P. Paragraphs 27 and 28 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

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

Paragraph 107 is amended and paragraph 111J is added. New text is underlined, and deleted text is struck through.

…

Disclosure

…

107. The disclosure requirement in paragraph 105 encompass contingent assets from both ~~exchange and non-exchange~~ transactions with performance obligations and those without performance obligations. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are ~~to be~~

~~dealt with as a part of a separate project~~ ~~on non-exchange~~ addressed in [draft] IPSAS [X] (ED 71), *R~~r~~evenue W~~without~~ P~~performance~~ O~~obligations~~*.

…

Effective Date

…

111J. Paragraph 107 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 27, *Agriculture*

Paragraph 17, 48(c), BC5, BC6, BC7, BC9, BC10, and Comparisons with IAS 41 are amended and paragraph 56G is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement

…

17. **Where an entity acquires a biological asset through a ~~non-exchange~~ revenue transaction without performance obligations, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**

…

Disclosure

…

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

    (a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**

    (b) **Increases due to purchases;**

    (c) **Increases due to assets acquired through a ~~non-exchange~~ revenue transaction without performance obligations;**

    (d) …

…

Effective Date

…

56G. Paragraph 17 and 48(c) were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

…

Government Grants

BC5. IAS 41 specifies requirements and guidance for accounting for government grants related to biological assets that differ from the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 27 does not include requirements and guidance for government grants, because at the time this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* ~~provides~~ provided requirements and guidance related to government grants in non-exchange transactions. The IPSASB did not consider that accounting for government grants related to biological assets should vary from the requirements of IPSAS 23.

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

BC6. An entity may acquire a biological asset or agricultural produce in a non-exchange transaction. In accordance with this Standard, these assets would be measured at fair value less costs to sell. At the time this Standard was developed, IPSAS 23 prescribed that assets acquired through a non-exchange transaction should be measured initially at fair value as at the date of acquisition. As a result of the different measurement requirements, the IPSASB considered the appropriate measurement basis for biological assets acquired in a non-exchange transaction.

BC7. When ~~The~~ the IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction~~.~~ ~~In particular~~, it considered, in particular, the following three approaches:

(a) Approach 1: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using IPSAS 23 (i.e., exclude all biological assets and agricultural produce acquired in a non-exchange transaction from the measurement requirements of this Standard);

(b) Approach 2: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using this Standard (i.e., exclude all biological assets and agricultural produce from the measurement requirements of IPSAS 23); and

(c) Approach 3: Use both IPSAS 23 and this Standard to measure biological assets and agricultural produce acquired in a non-exchange transaction.

BC8. The IPSASB rejected approach 1 because biological assets and agricultural produce acquired in exchange and non-exchange transactions would be measured differently. The IPSASB agreed that there is no reason to measure biological assets and agricultural produce acquired in a non-exchange transaction differently from those acquired in an exchange transaction because the assets are the same.

BC9. In analyzing approach 3, the IPSASB considered the requirements of IPSAS 23 in relation to the

measurement of other types of assets. IPSAS 23.13 ~~states~~ stated that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." This ~~implies~~ implied that for other assets, an entity ~~considers~~ considered the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity ~~considers~~ considered the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

...

Comparison with IAS 41

IPSAS 27, *Agriculture* is drawn primarily from IAS 41, *Agriculture* (2001), as amended up to December 31, 2008. The main differences between IPSAS 27 and IAS 41 are as follows:

- The definition of "agricultural activity" includes transactions for the distribution of biological assets at no charge or for a nominal charge. IAS 41 does not deal with such transactions.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard. IAS 41 does not include such a clarification.
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* provides requirements and guidance related to government grants in revenue ~~non-exchange~~ transactions without performance obligations.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.
- This Standard contains an additional disclosure requirement for biological assets for which the entity's use or capacity to sell are subject to restrictions.
- This Standard contains a requirement to distinguish between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. IAS 41 encourages, but does not require, entities to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets, or between mature and immature biological assets, as appropriate.
- This Standard contains transitional provisions on the first-time adoption of accrual accounting. IAS 41 does not include such transitional provisions.
- IPSAS 27 uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms future economic benefits and service potential, surplus or deficit, and statement of financial performance in IPSAS 27. The equivalent terms in IAS 41 are future economic benefits, profit or loss, and statement of comprehensive income.

Amendments to IPSAS 28, Financial Instruments: Presentation

Paragraphs AG21, ~~and~~ AG22, BC17, BC20, BC21, BC22, BC23 one heading and Comparisons with IAS 32 are amended and paragraph 60F is added. New text is underlined and deleted text is struck through.

…

Effective Date

…

126L. Paragraphs AG21 and AG22 were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Scope

…

AG21. In the public sector, it is possible that contractual and non-contractual arrangements are ~~non-exchange~~ without performance obligations ~~in nature~~. Assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are accounted for in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71, *Revenue without Performance Obligations)*. If ~~non-exchange~~ revenue transactions without performance obligations are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG70-AG71 of this Standard. An entity uses the guidance in this Standard and ~~IPSAS 23~~ draft IPSAS [X] (ED 71) in assessing whether a ~~non-exchange~~ revenue transaction without performance obligations gives rise to a liability or an equity instrument (contribution from owners).

AG22 An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual ~~non-exchange~~ revenue transaction without performance obligations is in substance a liability or an equity instrument.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 28

…

Definitions

…

Contractual Non-Exchange Revenue Transactions

BC17. When this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers*) ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising out of non-exchange revenue transactions. The IPSASB considered the interaction between this Standard and IPSAS 23.

BC18. In considering whether assets and liabilities that arise from non-exchange revenue transactions ~~are~~ were financial assets and financial liabilities, the IPSASB identified that the following basic requirements should be fulfilled:

- The arrangement is contractual in nature; and
- The arrangement gives rise to a contractual right or obligation to receive or deliver cash or another financial asset, or exchange financial assets under favorable or unfavorable conditions.

BC19. The IPSASB concluded that assets arising from non-exchange revenue transactions could meet these requirements. In particular, it noted that the nature of arrangements with donors may be contractual in nature, and may be settled by transferring cash or another financial asset from the donor to the recipient. In these instances, assets arising from non-exchange revenue transactions ~~are~~ were financial assets.

BC20. Therefore, when this Standard was developed~~,~~ the ~~, The~~ IPSASB agreed that, for financial assets arising from non-exchange transactions, an entity should apply the requirements of IPSAS 23~~)~~ in conjunction with IPSAS 28. In particular, an entity should consider~~s~~ the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction ~~results~~ resulted in a liability or a transaction that evidences a residual interest in the net assets of the entity, i.e., an equity instrument.

BC21. The IPSASB considered whether liabilities arising from non-exchange revenue transactions ~~are~~ were financial liabilities. Liabilities ~~are~~ were recognized in IPSAS 23 when an entity ~~receives~~ received an inflow of resources that ~~is~~ was subject to specific conditions. Conditions on a transfer of resources ~~are~~ imposed on an entity by a transferor ~~and require~~ required that the resources ~~are~~ were used in a certain way, often to provide goods and services to third parties, or ~~are~~ were returned to the transferor. This ~~gives~~ gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity ~~recognizes~~ recognized the resources as an asset and, where they are subject to conditions, ~~recognizes~~ recognized a corresponding liability.

BC22. While developing this Standard, ~~T~~the IPSASB considered whether the liability initially recognized is in the nature of a financial liability or another liability, e.g., a provision. The IPSASB agreed that, at the time the asset is recognized, the liability is not usually a financial liability as the entity's obligation is to fulfil the terms and conditions of the arrangement by utilizing the resources as intended, usually by providing goods and services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil the terms of the arrangement and is required to return the resources to the transferor, an entity would assess at this stage whether the liability is a financial liability considering the requirements set out in paragraph BC18 and the definitions of a financial instrument and a financial liability. In rare circumstances, a financial liability may arise from conditions imposed on a transfer of resources as part of a non-exchange revenue transaction. The IPSASB may consider such a scenario as part of a future project.

BC23. The IPSASB also noted that other liabilities may arise from non-exchange revenue transactions after initial recognition. For example, an entity may receive resources under an arrangement that ~~requires~~ required the resources to be returned only after the occurrence or non-occurrence of a future event. An entity assesses whether other liabilities arising from non-exchange revenue transactions are financial liabilities by considering whether the requirements in paragraph BC18 have been fulfilled and the definitions of a financial instrument and a financial liability have been met.

…

Comparison with IAS 32

IPSAS 28, *Financial Instruments: Presentation* is drawn primarily from IAS 32, *Financial Instruments: Presentation* (issued originally in 2003, including amendments up to December 31, 2008). The main differences between IPSAS 28 and IAS 32 are as follows:

- IAS 32 allows entities to treat financial guarantee contracts as insurance contracts where entities have previously asserted that such contracts are insurance contracts. IPSAS 28 allows a similar election, except that entities need not have explicitly asserted that financial guarantees are insurance contracts.
- In certain instances, IPSAS 28 uses different terminology from IAS 32. The most significant examples are the use of the terms "statement of financial performance" and "net assets/equity." The equivalent terms in IAS 32 are "statement of comprehensive income or separate income statement (if presented)" and "equity."
- IPSAS 28 does not distinguish between "revenue" and "income." IAS 32 distinguishes between "revenue" and "income," with "income" having a broader meaning than the term "revenue."
- IPSAS 28 contains additional Application Guidance dealing with the identification of arrangements that are, in substance, contractual.
- IPSAS 28 contains additional Application Guidance on when assets and liabilities arising from ~~non-exchange~~ revenue transactions without performance obligations are financial assets or financial liabilities.
- Principles from IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments* have been included as an Appendix in IPSAS 28.
- The transitional provisions in IPSAS 28 differ from those in IAS 32. This is because IPSAS 28 provides transitional provisions for those entities applying this Standard for the first time or those applying accrual accounting for the first time.

Amendments to IPSAS 30, Financial Instruments: Disclosures

Paragraphs 5A, 42A, 42H, 42M, 42N, are amended and paragraph 52G is added. New text is underlined and deleted text is struck through.

…

Scope

…

5A The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

…

Nature and Extent of Risks Arising from Financial Instruments

…

Quantitative Disclosures

…

Credit Risk

Scope and Objectives

42A. An entity shall apply the disclosure requirements in paragraphs 42F–42N to financial instruments to which the impairment requirements in IPSAS 41 are applied. However:

(a) For receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of IPSAS 41, if those financial assets are modified while more than 30 days past due; and

(b) Paragraph 42K(b) does not apply to lease receivables.

…

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

42H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) The loss allowance measured at an amount equal to 12-month expected credit losses;

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from exchange transactions that are within the scope of IPSAS 9 or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71~~)~~ or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

…

Credit Risk Exposure

42M. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) For which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from exchange transactions that are within the scope of IPSAS 9 or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) That are purchased or originated credit-impaired financial assets.

42N. For receivables that result from exchange transactions that are within the scope of IPSAS 9 or ~~non-exchange~~ revenue transactions without performance obligations that are within the scope of ~~IPSAS 23~~[draft] IPSAS [X] (ED 71) or lease receivables to which an entity applies paragraph 0 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

…

Effective Date

…

52G. Paragraphs 5A, 42A, 42H, 42M and 42N were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs ~~26, 26A, 42, 43, 76, 111, 121(c),~~ BC5, BC8 are amended. ~~and one heading are amended and paragraph 132K is added.~~ New text is underlined and deleted text is struck through.

…

~~Recognition and Measurement~~

~~26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:~~

~~1. The definition of an intangible asset (see paragraphs 17–25); and~~

~~2. The recognition criteria (see paragraphs 28–30).~~

~~This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange revenue transaction without performance obligations) and those incurred subsequently to add to, replace part of, or service it.~~

26A. Paragraphs 32-39 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 39A-41 deal with their application to intangible assets acquired in a public sector combination. Paragraphs 42-43 deal with the initial measurement of intangible assets acquired through non-exchange revenue transactions without performance obligations, paragraphs 44-45 with exchanges of intangible assets, and paragraphs 46-48 with the treatment of internally generated goodwill. Paragraphs 49-65 deal with the initial recognition and measurement of internally generated intangible assets.

...

Recognition and Measurement

...

Intangible Assets Acquired through Non-Exchange Revenue Transactions without Performance Obligations

42. In some cases, an intangible asset may be acquired through a non-exchange revenue transaction without performance obligations. This may happen when another public sector entity transfers to an entity in a non-exchange revenue transaction without performance obligations, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources. A private citizen, for example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange revenue transaction without performance obligations.

43. Under the circumstances the cost of the item is its fair value at the date it is acquired. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange revenue transaction without performance obligations, at its fair value consistent with the requirements of paragraph 74, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 74, and the supporting commentary in paragraphs 75-86 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

...

Subsequent Measurement

...

76. The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received through a non-exchange revenue transaction without performance obligations (see paragraphs 42-43).

...

Retirements and Disposals

111. **An intangible asset shall be derecognized:**

(a) **On disposal (including disposal through a non-exchange revenue transaction**

without performance obligations); or

(b) When no future economic benefits or service potential are expected from its use or disposal.

...

Disclosure

General

...

121. An entity shall also disclose:

(a) For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

(b) A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.

(c) For intangible assets acquired through a non-exchange revenue transaction without performance obligations and initially recognized at fair value (see paragraphs 42–43):

(i) The fair value initially recognized for these assets;

(ii) Their carrying amount; and

(iii) Whether they are measured after recognition under the cost model or the revaluation model.

(d) The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.

(e) The amount of contractual commitments for the acquisition of intangible assets.

...

Effective Date

...

132K. Paragraphs 26, 26A, 42, 43, 76, 111 and 121(c) were amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendments for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

Background

…

BC5. When this Standard was developed, IAS 38 ~~contains~~ contained requirements on exchanges of assets when the exchange transaction lacks commercial substance. The IPSASB considered whether this guidance ~~is~~ was necessary and concluded that it was not necessary because this issue ~~is~~ was addressed in IPSAS 23.

…

Intangible Assets Acquired through a Non-Exchange Transaction

BC8. At the time this Standard was developed IPSAS 23 ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising from non-exchange revenue transactions. This Standard addresses the circumstance where an intangible asset is acquired through a non-exchange transaction. The IPSASB agreed that, for intangible assets arising from such transactions, an entity applies the requirements of IPSAS 23~~.~~ in conjunction with this Standard for initial measurement of the intangible asset and, accordingly, considers directly attributable costs specified in this Standard.

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs AG64 and BC21 ~~is~~ are amended and paragraph ~~XX~~ 36E is added. New text is underlined and deleted text is struck through.

Application Guidance

…

Other Revenues (see paragraph 30)

…

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71), *Revenue without Performance Obligations*~~)~~.

…

Effective Date

…

36E. Paragraph AG64 was amended by [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

….

Basis for Conclusions

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

…

Recognition of a Liability

…

BC21. The IPSASB agreed that clarification of this issue was required. When this Standard was developed, ~~The~~ the IPSASB noted that using the term “performance obligation” could give rise to confusion because it ~~is~~ was used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions

Amendments to IPSAS 33, First-time Adoption of Accrual Basis IPSAS

Paragraphs 32, 41, 42, 43, 71, IG91 and two headings are amended and paragraph 154D was added. Amended text is underlined and deleted text is struck through.

…

Fair Presentation and Compliance with IPSASs

…

32. For example, a first-time adopter adopts the three year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of ~~non-exchange~~ revenue without performance obligations. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSASs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSASs at the date of adoption of accrual basis IPSASs or during the period of transition.

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

…

41. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of IPSAS 9, *Revenue from Exchange Transactions*, or other receivables settled in cash or another financial asset in terms of ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ draft IPSAS [X] (ED 71), *Revenue without Performance Obligations*.**

…

Recognition and/or Measurement of ~~Non-Exchange~~ Revenue without Performance Obligations

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange~~ revenue without performance obligations for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of revenue from ~~non-exchange~~ transactions without performance obligations on a class-by-class basis.**

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue from ~~non-exchange~~ transactions without performance obligations in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue from ~~non-exchange~~ transactions without performance obligations that do not comply with the provisions of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) incrementally to different classes of revenue from ~~non-exchange~~ transactions without performance obligations. For example, a first-time adopter may be able to recognize and measure property taxes and some other

classes of transfers in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for reorganizing and measuring income tax revenue.

…

Used Deemed Cost to Measure Assets Acquired Through a ~~Non-Exchange~~ Revenue Transaction without Performance Obligations

71. **A first-time adopter may elect to measure an asset acquired through a ~~non-exchange~~ revenue transaction without performance obligations at its fair value when reliable cost information about the asset is not available, and use that fair value as its deemed cost.**

…

Effective Date

…

154D Paragraphs 32, 41, 42, 43, 71 were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

….

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

…

Transitional Exemptions Relating to the Recognition and Measurement of Non-Exchange Revenue

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

BC64. When this Standard was developed, ~~The~~ the existing transitional provisions in IPSAS 23 ~~allow~~ allowed a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also ~~allows~~ allowed a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also ~~requires~~ required that changes in accounting policies should only be made to better conform to IPSAS 23.

BC65. The IPSASB concluded that it ~~will~~ would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the accrual basis. In line

with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSASs, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSASs. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

…

Implementation Guidance

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

…

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

…

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

		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 23, *Revenue from Non-Exchange Transactions*~~ [Draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*			√ All non-exchange revenue not recognized under previous basis of accounting	√ All non-exchange revenue recognized under previous basis of accounting	√ To extent that 3 year relief period was adopted for assets and/or liabilities			

…

Amendments to IPSAS 35, Consolidated Financial Statements

Paragraph AG13 is amended and paragraph 79D was added. New text is underlined and deleted text is struck through.

Application Guidance

…

Assessing Control

…

Power

…

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through ~~non-exchange~~ transactions without performance obligations;

(d) …

…

Effective Date

…

79D Paragraph AG13 was amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraph 5 is amended and paragraph 51D is added. New text is underlined and deleted text is struck through.

…

Scope

…

5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are ~~non-exchange~~ revenue without performance obligations in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

…

Effective Date

…

51D Paragraph 5 was amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Amendments to IPSAS 40, Public Sector Combinations

Paragraph 34, 79, AG58, AG86, IE176, IE250, IE263, and IE264 and paragraph 126A is added. New text is underlined and deleted text is struck through.

…

Accounting for Amalgamations

…

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

…

Exceptions to the Recognition or Measurement Principles

…

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

The Acquisition Method of Accounting

…

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

…

Exceptions to Both the Recognition and Measurement Principals Income Taxes (Where Included in the Terms of the Acquisition)

…

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Effective Date

…

126A Paragraphs 34, 79, AG58, and AG86 were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

…

Accounting for Amalgamation

…

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

…

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Accounting for Acquisition

…

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

…

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Illustrative Examples

…

Accounting for Amalgamation

…

Eliminating Transactions between the Combining Operations – Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

…

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.

…

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

…

IE176. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

…

IE250. MF accounts for tax receivable in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and would recognize an adjustment for the tax forgiven.

…

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a ~~grant~~ transfer of CU800 to be used in the provision of an agreed number of training courses to the employees of TE.

IE264. The ~~grant~~ transfer was subject to a ~~condition~~ present obligation~~s~~ that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its ~~performance~~ present obligation, in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the ~~grant~~ transfer, but accounted for the full CU800 as an expense.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 2(j), 3, 37, 87(a), AG6, AG33, AG43, AG44, AG114, AG117, AG122, AG124, AG125, AG129, BC6, BC7, BC8, ,BC10, BC11, BC12, BC26 ED154, ED155, Implementation Guidance Section G and two headings were amended and paragraph 156A was added, New text is underlined and deleted text is struck through.

…

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments except:**

… ~~(a) Those interests in controlled entities, associates and joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, or IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate or joint venture in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a controlled entity, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in IPSAS 28, *Financial Instruments: Presentation*.~~

~~(b) Rights and obligations under leases to which IPSAS 13, *Leases* applies. However:~~

~~(i) Finance lease receivables (i.e., net investments in finance leases) and operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard;~~

(ii) Lease liabilities recognized by a lessee are subject to the derecognition requirements in paragraph 35 of this Standard; and

(iii) Derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.

(c) Employers' rights and obligations under employee benefit plans, to which IPSAS 39, *Employee Benefits* applies.

(d) Financial instruments issued by the entity that meet the definition of an equity instrument in IPSAS 28 (including options and warrants) or that are required to be classified as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. However, the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a).

(e) Rights and obligations arising under:

(i) An insurance contract, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in paragraph 9; or

(ii) A contract that is within the scope of relevant international or national accounting standard dealing with insurance contracts because it contains a discretionary participation feature.

This Standard applies to a derivative that is embedded in a contract if the derivative is not itself an insurance contract (see paragraphs 47–59 and Appendix A paragraphs AG99–AG110 of this Standard). An entity applies this Standard to financial guarantee contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring them. Notwithstanding (i) above, an entity may apply this Standard to other insurance contracts which involve the transfer of financial risk.

(f) Any forward contract between an acquirer and a selling shareholder to buy or sell an acquired operation that will result in a public sector combination to which IPSAS 40 applies at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

(g) Loan commitments other than those loan commitments described in paragraph 4. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard.

(h) Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share based payment applies, except for contracts within the scope of paragraphs 5–8 of this Standard to which this Standard applies.

~~(i) Rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognizes as a provision in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, or for which, in an earlier period, it recognized a provision in accordance with IPSAS 19.~~

(~~i~~j) **The initial recognition and initial measurement of rights and obligations arising from non-exchange revenue transactions to which ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ [draft] IPSAS [X] (ED 71) *Revenue without Performance Obligations* applies; except as described in AG6.**

~~(k)~~ …

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

…

Recognition and Derecognition

…

Derecognition of Financial Liabilities

…

37. **The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a ~~non-exchange~~ revenue transaction without performance obligations, an entity applies ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Measurement

…

Impairment

…

Simplified Approach for Receivables

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

    (a) **Receivables that result from exchange transactions that are within the scope of IPSAS 9 and ~~non-exchange~~ revenue transactions without performance obligations within the scope of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).**

…

Effective Date

…

156A Paragraphs 2(j), 3, 37, 87(a), AG6, AG33, AG43, AG44, AG114, AG117, AG122, AG124, AG125, AG129 were amended by [draft] IPSAS [X] (ED 71) issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [Month] [Day], [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 71) at the same time.

…

Application Guidance

Scope

…

AG6. Rights and obligations (assets and liabilities) may arise from ~~non-exchange~~ revenue transactions without performance obligations, for example, an entity may receive cash from a multi-lateral agency to perform certain enforceable activities. Where the performance of those enforceable activities is subject to conditions, an asset and a liability is recognized simultaneously. Where the asset is a financial asset, it is recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71), and initially measured in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) and this Standard. A liability that is initially recognized as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from ~~non-exchange~~ revenue transactions without performance obligations are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.

…

Recognition and Derecognition

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with the relevant revenue standard (see IPSAS 9 and ~~IPSAS 23~~[draft] IPSAS [X] (ED 71)). Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and

46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

…

Derecognition of Financial Liabilities

…

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs ~~84 to 87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a ~~non-exchange~~ revenue transaction without performance obligations it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG43-AG46 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

…

Measurement

~~Non-Exchange~~ Revenue Transactions without Performance Obligations

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions without performance obligations is dealt with in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). Assets resulting from ~~non-exchange~~ revenue transactions without performance obligations can arise out of both contractual and non-contractual arrangements (see IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

(a) Initially recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71);

(b) Initially measured:

(i) At ~~fair value~~ the transaction price using the principles in ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71); and

(ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit

…

Initial Measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

…

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) In all other cases, at the measurement required by paragraph 57, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The requirements of this paragraph do not apply to concessionary loans or equity instruments arising from ~~non-exchange~~ revenue transactions without performance obligations as outlined in paragraphs AG118 to AG130.

Concessionary Loans

…

AG122. Whether a loan is concessionary or originated credit-impaired depends on its substance. An intention to incorporate a ~~non-exchange~~ revenue without performance obligations component into the transaction, such as a transfer of resources, indicates the loan is concessionary. The ~~non-exchange~~ revenue without performance obligations component is incorporated into the transaction by granting the loan at below market terms. By contrast, originated credit-impaired loans are loans where one or more events, that have a detrimental impact on the estimated future cash flows of the financial asset, have occurred.

…

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs ~~42–58~~ 106-107 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155 Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).

AG125. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

(b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather

than an expense.

Illustrative Examples are provided in paragraph IG54 of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71) as well as paragraphs IE153 to IE161 accompanying this Standard.

…

Equity Instruments Arising from ~~Non-Exchange~~ Revenue Transactions without Performance Obligations

…

AG129. At initial recognition of such transactions, an entity shall analyze the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a ~~non-exchange~~ revenue transaction without performance obligations. To the extent that the transaction, or component of the transaction, is a ~~non-exchange~~ revenue transaction without performance obligations, any assets or revenues arising from the transaction are accounted for in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

…

Scope

BC6. Assets and liabilities may arise out of contractual non-exchange revenue transactions. At the time this Standard was developed, ~~The~~ the initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions ~~is~~ was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~ did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC7. When this Standard was being developed, ~~The~~ the IPSASB agreed that where an asset acquired in a non-exchange transaction is a financial asset, an entity:

- Initially recognizes the asset using IPSAS 23; and
- Initially measures the asset using IPSAS 23 and, considers the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 ~~does~~ did not prescribe subsequent measurement or derecognition requirements for assets acquired in a non-exchange transaction, this Standard is applied to those assets if they are financial assets.

BC8. For liabilities, the IPSASB agreed, when developing this Standard, that liabilities arising from conditions imposed on a transfer of resources in accordance with IPSAS 23 are initially recognized and initially measured using that IPSAS, as these liabilities usually do not meet the definition of a financial liability at initial recognition (see IPSAS 28). After initial recognition, if circumstances indicate that the liability is a financial liability, an entity assesses if the liability recognized in

accordance with IPSAS 23 should be derecognized and a financial liability recognized in accordance with this Standard.

BC9. At the time IPSAS 41 was finalized, t~~T~~he IPSASB agreed that other liabilities that arise from non-exchange revenue transactions, for example, the return of resources based on a restriction on the use of an asset, are recognized and measured in accordance with this Standard if they meet the definition of a financial liability.

…

Initial Measurement

BC10. When the IPSASB developed this Standard, ~~The IPSASB~~ it was acknowledged that there is an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 ~~requires~~ required that assets acquired in a non-exchange revenue transaction ~~are~~ were measured initially at fair value. This Standard requires financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC11. At that time,~~The~~ the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

Equity Instruments Arising from Non-Exchange Transactions

BC12. In the public sector, equity instruments are sometimes obtained with minimal cash flow expectations as a way to provide funding to another public sector entity for providing a service. The IPSASB considered the need for additional guidance similar to concessionary loans for such equity instruments acquired at non-market terms. While the IPSASB agreed that there are fundamental differences between the economic substance of such arrangements compared to concessionary loans. The IPSASB also agreed that, when this Standard was developed, the guidance in IPSAS 23 and the Standard sufficiently ~~address~~ addressed the recognition and measurement of such transactions, additional guidance ~~is~~ was included to provide clarity.

…

Analyzing the Substance of Equity Instruments Arising from Non-Exchange Transactions

~~BC25. Constituents noted that it can be difficult to identify when an equity instrument arises from a non-exchange transaction and sought additional guidance.~~

BC26. When developing this Standard, ~~The~~ the IPSASB considered that the existing requirements and guidance in IPSAS 28 and IPSAS 23 already appropriately addressed these matters. IPSAS 28 ~~defines~~ defined an equity instrument and ~~explains~~ explained how to determine whether a financial instrument is a financial liability or an equity instrument. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, paragraph 28, ~~includes~~ included examples of contributions from owners. Nevertheless, the IPSASB agreed to develop implementation guidance (paragraph G.4) to support constituents in analyzing the substance of financial instruments arising from non-exchange transactions.

...

ILLUSTRATIVE EXAMPLES

…

Concessionary Loans (Paragraphs AG118–AG126)

Example 20—Receipt of a Concessionary Loan (Interest Concession)

…

IE154. The local authority has received a concessionary loan of CU5 million, which will be repaid at 5 percent below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognized in accordance with ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71).

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognizes the following:

Dr		Bank	5,000,000	
	Cr	Loan (refer to Table 2 below)		4,215,450
	Cr	Liability or non-exchange revenue		784,550

Recognition of the receipt of the loan at fair value

~~IPSAS 23~~ [Draft] IPSAS [X] (ED 71) is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph ~~IG54~~IE54 of that Standard provides journal entries for the recognition and measurement of the off-market portion of the loan deemed to be non-exchange revenue.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

…

Section G Concessionary Loans and ~~Non-Exchange~~ Equity Transactions without Performance Obligations

G.1 Sequencing of "Solely Payments of Principal and Interest" Evaluation for a Concessionary Loan

If an entity issues a concessionary loan (financial asset) when does it assess classification for subsequent measurement purposes?

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a ~~grant~~ transfer, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs 112–113~~42–58~~ of ~~IPSAS 23~~ [draft] IPSAS [X] (ED 71). If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of [draft] IPSAS X (ED 71), Revenue without Performance Obligations.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*). In forming their views, IPSASB members considered the views of respondents to Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*.

BC2. Governments and many other public sector entities derive the majority of their revenue from transactions without performance obligations. These transactions include, principally, taxation, but also transfers. This [draft] IPSAS addresses these types of transactions.

BC3. This Standard establishes broad principles for the recognition of revenue from transactions without performance obligations, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. In developing this [draft] Standard, the IPSASB considered whether to adopt an approach that focused on the development of requirements for accounting for revenue arising from a range of specific types of transactions without performance obligations. However, the IPSASB noted that such an approach brings with it consequent risks that the resultant [draft] Standard would not provide comprehensive guidance for all revenue from transactions without performance obligations. The IPSASB is of the view that the approach adopted in this Standard ensures that appropriate broad principles for the recognition of revenue from transactions without performance obligations are established and can be applied to all revenue from transactions without performance obligations.

Background

BC4. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts* respectively which were both issued by the International Accounting Standards Board (IASB).

BC5. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:

(a) Difficulty in making the distinction between exchange and non-exchange transactions;

(b) Difficulty in making the distinction between a condition and a restriction;

(c) Lack of guidance on multi-year funding arrangements; and

(d) Lack of guidance on accounting on for capital grants.

BC6. In May 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which superseded IAS 11 and IAS 18. In discussing the possibility of superseding IPSAS 9 and IPSAS 11 with an IPSAS aligned with IFRS 15 the IPSASB considered that this may provide an opportunity to address some of

the application issues with IPSAS 23. Consequently, the IPSASB issued, Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* in August 2017 which outlined its proposals for developing and IPSAS to align with IFRS 15 and also updating IPSAS 23.

BC7. Respondents to the CP agreed with the proposals which led to the development of two revenue standards to replace the existing three: an IPSAS aligned with IFRS 15, updated for public sector specific issues, using a performance obligation approach, and an updated IPSAS 23 applicable to the majority of revenue transactions common to the public sector. Therefore, [draft] IPSAS [X] (ED 70) addresses revenue transactions with performance obligations and this [draft] Standard addresses revenue transactions without performance obligations (the updated IPSAS 23).

BC8. This Basis explains the IPSASB decisions regarding the changes made to IPSAS 23 in the development of this [draft] Standard. The IPSASB decided that all necessary authoritative text from IPSAS 23 should be incorporated into this [draft] Standard and therefore the Basis for Conclusion paragraphs from IPSAS 23 that relate to remaining IPSAS 23 text have been retained.

Scope

BC9. The IPSASB decided to change the approach for classification or revenue transaction from an exchange/non-exchange approach to that of whether the transaction had a performance obligation (as defined in [draft] IPSAS [X] (ED 70) or not. As such revenue transactions with performance obligations are accounted for under [draft] IPSAS [X] (ED 70) and revenue transactions without performance obligations are accounted for in this [draft] Standard. This [draft] Standard there provides the accounting for:

(a) Revenue transactions from binding arrangements without performance obligations but with present obligations (see paragraphs BC12-BC14); and

(b) Revenue transactions which were not from a binding arrangement, including but not limited to:

i. Taxes;

ii. Bequests;

iii. Fines; and

iv. Donations

While these transactions may not arise from bindings arrangements, they may be a result of another arrangement such as legislation

Unenforceable transactions

BC10. The IPSASB discussed how to account for transfers that did not arise from a binding arrangement but had an implied requirement for how those resources were to be used.

BC11. The IPSASB decided that because the transaction was unenforceable, as there was no binding arrangement, there was no present obligation for the transfer recipient to use the resources as the transfer provider intended. Therefore, revenue should be recognized by the transfer recipient when the resources were controlled by the transfer recipient.

Enforceable transactions

BC12. The IPSASB considered whether it is possible to have an enforceable transaction with a present obligation, that was not a performance obligation, as defined in [draft] IPSAS [X] (ED 70). They

concluded that a present obligation that is not a performance obligation can exist. The present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.

BC13. The IPSASB decided that the present obligations in enforceable transactions would either be an:

(a) Enforceable activity; or

(b) A requirement to incur eligible expenditure.

The transfer recipient would recognize an asset and a liability when they had control of the transfer and the revenue would be recognized (and the liability decreased) when either an enforceable activity was completed, or as eligible expenditure was incurred.

BC14. The IPSASB noted that an enforceable activity or the requirement to incur eligible expenditure differs from a performance obligation in [draft] IPSAS [X] (ED 70) because there is no requirement for the transfer recipient to transfer a good or service to either the transfer provider or a third-party beneficiary.

Appropriations

BC15. The IPSASB noted that, in some jurisdictions, a binding arrangement for a revenue transaction without performance obligations might be made subject to approval of the related appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. In some jurisdictions, a transfer provider would be prohibited from transferring the promised resources until the appropriation was approved; in other jurisdictions, no such prohibition would exist. The IPSASB agreed that the transfer recipient should consider substance over form, and where the limitation has substance, the transfer recipient should not recognize an asset prior to the appropriation being approved. The IPSASB also agreed to include guidance on determining whether the limitation that future transfers were subject to the appropriation being approved has substance.

Determining the Transaction Price

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

BC17. Constituents noted that there are a number of revenue transactions within the scope of draft IPSAS [X] ED (71) that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased’s estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.

BC18. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probably a significant reversal will not occur

satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain which addressed concerns raised by constituents.

Capital Transfers

BC19. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. Therefore, this [draft] Standard includes specific guidance on accounting for capital transfers. However, the IPSASB noted that the accounting for capital transfers would the same as for any other transfer in that if the transfer of resources arose outside of a binding arrangement revenue would be recognized by the transfer recipient when it controlled those resources, and that revenue from capital transfers from binding arrangements would be recognized either as enforceable activities were completed, or as eligible expenditure was incurred.

BC20. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting 'grants related to assets' which is defined as: "Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held".

BC21. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated. ~~Therefore, under IAS 20, a capital transfer would never be classified as revenue, even though it affects the profit and loss statement as other income or reduced depreciation.~~

BC22. The IPSASB agreed that this approach did not provide useful or representationally faithful information for uses and therefore decided to develop an accounting approach for capital transfers which recognized that transfer in revenue as the non-financial asset (capital) asset is either procured or constructed.

Monetary and Non-monetary Assets

BC23. This [draft] Standard does not establish different recognition requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify different ~~financial reporting treatments~~recognition point.

Transactions with both Performance Obligation and No Performance Obligation Components (Hybrid transactions)

BC24. This [draft] Standard notes that a single transaction can have two components, one that includes a performance obligation and one that does not have a performance obligation. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts enhances the transparency of financial statements. However, if the components cannot be separated the whole transactions should be accounted for under [draft] IPSAS [X] (ED 70).

Contributions from Owners

BC25. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 8~~9~~). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Measurement of Assets

BC26. This [draft] Standard requires that assets acquired through transactions without performance obligations be initially measured at ~~either~~ their transaction price ~~or their fair value (depending on whether the asset is cash or non-cash)~~ as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In a transaction with performance obligations, the cost of acquisition is a measure of the fair value of the asset acquired. However, in a transaction without performance obligations the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. ~~Fair value or t~~Transaction price most faithfully represents the actual value the public sector entity (transfer recipient) accrues as a result of the transaction. Initial measurement of non-assets acquired through transactions without performance obligations at their transaction price, which is fair value for non-monetary assets,~~fair value~~ is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSASs with the requirements of this Standard.

Entity Bank Accounts

BC27. This [draft] Standard assumes the requirement that all money deposited in a bank account of an entity (transfer recipient) satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity (transfer recipient). The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The [draft] Standard also requires the recognition of a liability in respect of any amount the ~~reporting~~ entity (transfer recipient) has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Liabilities

BC28. This [draft] Standard requires that where an entity (transfer recipient) recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

BC29. This [draft] Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The [draft] Standard notes that this is the

earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts

BC30. This [draft] Standard requires an entity (transfer recipient) that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity (transfer recipient) may need to return part or all of the resources. Some are of the view that, where resources are received in advance of the taxable event, an entity (transfer recipient) should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the entity (transfer recipient) recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC31. This [draft] Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this [draft] Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this [draft] Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this [draft] Standard.

BC32. The treatment prescribed in this [draft] Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[1] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense. The statistical financial reporting frameworks are currently under review; in particular, a new edition of the United Nations' *System of National Accounts* is currently under development and is due to be published in 2008. The revised framework may revise the current reporting requirement in respect to tax credits. Revision of the *System of National Accounts* often precedes revisions to other statistical frameworks.

[1] OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

The Tax Gap

BC33. For some taxes, reporting entities (transfer recipients) will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

BC34. The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Services In-kind

BC35. This [draft] Standard permits, but does not require, recognition of services in kind. This [draft] Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the ~~reporting~~ entity (transfer recipient) has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

BC36. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received particularly if those services were integral to the operations of the entity.

Compulsory Contributions and Levies to Social Security and Other Schemes

BC37. There are a variety of different arrangements for funding social security schemes across jurisdictions. Constituents had commented to the IPSASB that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

BC38. The IPSASB considered this issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are transactions without performance obligations, and should be accounted for in accordance with this [draft] Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for a revenue under this [draft] Standard.

BC39. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this [draft] Standard.

Illustrative Examples

This guidance accompanies, but is not part of, [draft] Standard X [ED 71]

Measurement, Recognition, and Disclosure of Revenue from without Performance Obligations

Example 1—Income Tax (paragraph 87)

IE1. A national government (/transfer recipient) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year), and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.

IE2. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of personal income tax on the income earned during the reporting period, to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

Example 2—Measurement of Taxation Revenue (paragraphs 90–93)

IE3. A national government (/transfer recipient) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy-year period. The tax year and the reporting period are January 1 to December 31. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.

IE4. Income tax revenue should be recognized in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax), and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.

IE5. The model enables the ~~reporting~~ entity (transfer recipient) to reliably measure the assets and revenue accruing to it during the reporting period, which are then recognized and disclosed in the general purpose financial statements. The notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 3—Value Added Tax (paragraph 87)[1]

IE6. A national government (~~reporting~~ entity/transfer recipient) imposes a value-added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium-sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.

IE7. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value-added goods or services, during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 4—Goods and Services Tax (paragraph 87)

IE8. A national government (transfer recipient) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are required to electronically submit GST returns to the tax department on a weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.

IE9. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Example 5—Customs Duty (paragraph 87)

IE10. A national government (transfer recipient) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IE11. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

Example 6—Death Duties (paragraph 87)

IE12. A national government (transfer recipient) imposes death duties of 40 percent on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of

[1] Some jurisdictions use the terms Value Added Tax (VAT) and Goods and Services Tax (GST) interchangeably.

the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

IE13. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Example 7—Property Tax (paragraph 87)

IE14. A local government (transfer recipient) levies a tax of one percent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IE15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the passing of the date on which the taxes are levied, July 31. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which that date occurs.

Example 8—Advance Receipts of Income Tax (paragraph 89)

IE16. Government A (transfer recipient) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.

IE17. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The ~~reporting~~ entity (transfer recipient) recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Example 9—Transfer of resources to Another Level of Government for General Purposes – not binding (paragraphs 53, 100 and AG2(b))

IE18. The national government (transfer provider) makes a transfer of CU10 million to a local government (transfer recipient) in a socioeconomically deprived area. The local government (transfer recipient) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no enforceable activities or eligible expenditure requirements attached to the transfer. All local governments are required to prepare and present audited general purpose financial statements.

IE19. Because, the arrangement is not binding and there are no enforceable activities or eligible expenditure requirements , there is no present obligation, so the transfer is recognized as an asset and revenue in the general purpose financial statements of the reporting period in which it is controlled by the local government.

Example 10—Transfer of resources with an enforceable activity and/or eligible expenditure (paragraphs 15−24)

IE20. A national government (transfer provider) makes a cash transfer of CU50 million to a state

government social housing entity (transfer recipient), specifying that it:

(a) Increases the stock of social housing by an additional 1,000 units over and above any other planned increases; or

(b) Uses the cash transfer in other ways to support its social housing objectives.

If neither of these is satisfied, the recipient entity must return the cash to the national government.

IE21. The state government social housing entity (transfer recipient) recognizes an increase in an asset (cash) and a liability in the amount of CU50 million when the transfer recipient has control of the transfer. The requirements in the agreement meet the requirements for an enforceable activity (IE20(a)) or eligible expenditure (IE20(b)) therefore a present obligation exists.

IE22. If the resources are used to increase the social housing stock the entity will recognize revenue and decrease the liability as the housing stock is increased (i.e., as new stock is acquired or constructed).

IE23. If the resources are used to support the entity's social housing objectives, the entity will recognize revenue and decrease the liability as the eligible expenditure is incurred.

Example 11—Transfer to a Public Sector University – unenforceable transaction (paragraph 53)

IE24. The national government (transfer provider) transfers 200 hectares of land in a major city to a university (transfer recipient) for the establishment of a university campus. The agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

IE25. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17. The obligation is not enforceable therefore does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Example 12—Grant to Another Level of Government with Present Obligations (paragraphs 17-24)

IE26. The national government (transfer provider) provides CU10 million to a provincial government (transfer recipient) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for new railroad or tramway systems, and 20 percent for to purchase rolling stock. Under the terms of the agreement, the money can only be used as specified, and the provincial government (transfer recipient) is required to include a note in its audited general purpose financial statements detailing how the transfer was spent. The agreement requires the transfer to be spent as specified in the current year or be returned to the national government.

IE27. The provincial government recognizes the transfer as an asset. The provincial government also recognizes a liability in respect of the present obligations attached to the grant. The binding arrangement contains three separate present obligations which can be classified as either an enforceable activity or as eligible expenditure;

(a) The obligation to use CU4 million for modernizing the existing railroad and tramway system would be classified as a requirement to incur eligible expenditure because there is no specificity as to what is required;

(b) The obligation to use CU4 million for new railroad or tramway systems would also be classified as a requirement to incur eligible expenditure, again due to the lack of specificity in the requirement;

(c) However the obligation to use CU2 million on purchasing rolling stock would be classified as an enforceable activity as the requirement to purchase rolling stock is quite specific.

IE28. As the province satisfies the present obligations, that is, as it either incurs eligible expenditure, or completes an enforceable activity it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Example 13—Research Grant (in Substance a Transaction with a performance obligation) (paragraph AG7)

IE29. A large corporation that makes cleaning products (transfer provider) gives money to a public university (transfer recipient) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation specifies that the research results are to be shared with it before being announced to the public, and that it has the right to apply for a patent on the compound.

IE30. This is transaction with performance obligations because the transfer recipient is required to transfer the research results to the transfer provider (purchase), in return for the transfer. Therefore, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. [Draft] IPSAS [X] (ED 70) *Revenue with Performance Obligations* and IPSAS 31, *Intangible Assets* apply to this transaction.

Example 14—Debt Forgiveness (paragraphs AG42-AG45)

IE31. The national government (transfer provider) lent a local government (transfer recipient) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no enforceable activities or eligible expenditure requirements attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE32. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

Example 15—Proposed Bequest (paragraphs AG48-AG50)

IE33. A 25-year old recent graduate (transfer provider) of a public university names the university (transfer recipient) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

IE34. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transfer provider), which has not occurred.

Example 16—Pledge – Television Appeal for Public Hospital (paragraph 110)

IE35. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (recipient). The annual reporting date of the public hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IE36. The public hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge, because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources; therefore it cannot recognize the asset or the related revenue until the donation is binding on the donor.

Example 17—Fine (paragraphs 62-67 and 122)

IE37. A major corporation is found guilty of polluting a river. As a penalty, it is required to clean up the

pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine but the company has announced that it will appeal the case. Historically, appeals of similar cases have resulted in the collection of approximately 75% of the initial amount of the fine.

IE38. The government (transfer recipient) recognizes a receivable and revenue of CU37.5 million in the general purpose financial statements of the reporting period in which the fine is imposed. If the transaction is material, the government also discloses: the legislation or regulation that the corporation violated to incur the fine; the fact that only CU37.5 million of that fine was recognized as revenue; and the fact that CU12.5 million of the fine was not recognized as its collection was not probable.

Example 18—External Assistance Recognized (paragraphs 100, AG35-AG41)

IE39. National Government A (transfer recipient) enters into an external assistance agreement with National Government B (transfer provider), which provides National Government A with development assistance to support National Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A and the types or items or expenses the transfer can be spent on to further its health objectives. National Government A measures the transaction price ~~fair value~~ of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to the National Government B.

IE40. When the external assistance agreement becomes binding, National Government A recognizes an asset (a receivable) for the amount of CU5 million, and a liability in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There is a requirement to incur eligible expenditure attached to this agreement therefore revenue is recognized and the liability decreased as that expenditure is incurred.

Example 19—Revenue of Aid Agency (paragraphs 100, AG51–AG55)

IE41. Green-Aid Agency (transfer recipient) relies on funding from a group of governments (transfer providers). The governments have signed a binding arrangement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the agreed expenses (eligible expenditure) of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time. Any funding not used in the budget year is refundable to the governments in the same proportion as the transfers were received.

IE42. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

IE43. In 20X7, Green-Aid Agency recognizes an asset of CU15 Million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.

IE44. In 20X8, Green Aid Agency recognizes a further CU38 as an asset and liability (as and when the funding is received) and then a total of CU53 million of revenue when the eligible expenditure is incurred.. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

Example 20 —Goods in-kind received as Revenue (paragraph AG51 - AG55)

IE45. A Defense Force Agency of Government A (transfer provider) agrees to provide an Aid Agency of Government B with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Government A purchased the tents for CU100 per unit two years prior to transferring them to Government B. The agreement states that the tents are valued at CU100 per unit.

IE46. Upon receipt, Government B determines that the market price for this version of tent is CU50. Therefore, Government B recognizes revenue at the value of CU50 per unit received instead of the CU100 as per the agreement.

Example 21—Disclosure of Services In-kind not Recognized (paragraphs 103–108, 116)

IE47. A public hospital's (transfer recipient) accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age, and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

IE48. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 22—Contribution from Owners (paragraphs 0−0)

IE49. In 20X0 the neighboring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (~~reporting~~ entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognizes as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminum smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent

valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.

IE50. When the amendment to the charter becomes binding, TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

Example 23—Transfer from Binding Arrangement not Requiring Recognition of a Liability (paragraph 26)

IE51. National Park Department (transfer recipient) of Country A receives a transfer of CU500,000 from the bilateral aid agency of Country B (transfer provider). The binding arrangement specifies that the transfer is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. The terms of the agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that National Park Department has received a transfer of this type from the same transfer provider. In prior years, the transfer has not been used as specified, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

IE52. National Park Department analyzes the transaction and concludes that, although the terms of the agreement are enforceable, because the bilateral aid agency has not enforced the requirements in the past, and given no indication that it ever would, the arrangement has the form of a enforceable arrangement, but not the substance. Therefore, National Park Department recognizes an increase in an asset (cash in bank) and revenue; it does not recognize a liability.

Example 24—Disclosures Made in the Financial Statements of Government A (paragraphs 114–116)

IE53. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSASs for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Transactions without Performance Obligations		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX

Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities recognized under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Non-Exchange Transactions

1. Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of [draft] IPSAS [X] (ED 71, *Revenue without Performance* Obligations). However, the Government takes advantage of the transitional provisions in that Standard in respect of income taxes and estate taxes.

Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the transfer arrangement becomes binding, except for some services in-kind. The government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.

3. Where a transfer is subject to enforceable activities or a requirement to incur eligible expenditure, if unfulfilled, require the return of the transferred resources, the Government recognizes a liability until the requirements are fulfilled.

Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions

Taxes

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accrual basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.

5. Assets and revenue accruing from goods and services tax are initially measured at the transaction price~~fair value~~ of assets accruing to the government during the reporting period, principally cash, cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. Estate tax of 40% is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the transaction price ~~fair value~~ as at the date of acquisition of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the transaction price ~~fair value~~ of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their transaction price, which is fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognized when a binding transfer arrangement is in place, but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of [draft] IPSAS [X] (ED 71, *Revenue without Performance Obligations*), to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The government estimates that it will be able to reliably measure income tax on an accrual basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of noncompliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to build a public hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Requirements

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the requirement that it be used for public health purposes and not be sold for 50 years. The land was acquired by the transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.

12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government, and subject to the requirement that it not be sold for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.

14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on condition that it be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured as there are no equivalent paid positions available in the local markets and, in the absence of volunteers, the services would not be provided. The government does not recognize these services in the statements of financial position or financial performance.

Example 25 - Concessionary Loans (paragraphs 112 to 113)

IE54. An entity receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:

Year 1: no capital to be repaid

Year 2: 10% of the capital to be repaid

Year 3: 20% of the capital to be repaid

Year 4: 30% of the capital to be repaid

Year 5: 40% of the capital to be repaid

- Interest is charged at 5% per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10%.
- To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned).
- The entity built the following schools over the period of the loan:

Year 1: 1 school completed

Year 2: 3 schools completed

Year 3: 5 schools completed

Year 4: 10 schools completed

Analysis

The entity has effectively received a transfer of CU1 million and a loan of CU5 million (Note: An entity would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received an additional transfer of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10%).

The transfer of CU1 million + CU784,550 is accounted for in accordance with this [draft] Standard and, the loan with its related contractual interest and capital payments, in accordance with IPSAS 41.

1.	On initial recognition, the entity will recognize the following:			
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2.	Year 1: the entity will recognize the following:			
Dr		Liability	CU178,455	
	Cr	Revenue without Performance Obligations		CU178,455

(1/10 of the schools built X CU1,784,550)

(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples

are included in the Illustrative Examples to IPSAS 41).

3. Year 2: the entity will recognize the following (assuming that the entity subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue without Performance Obligations		CU356,910
(3/10 schools built X CU1,784,500 – CU178,455 already recognized)				

4. Year 3: the entity will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue without Performance Obligations		CU356,910
(5/10 schools built X CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the entity will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Revenue without Performance Obligations		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the entity would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue without Performance Obligations		CU1,784,550

Interaction Between Measurement Requirements of [draft] IPSAS [X] (ED 71) Revenue without Performance Obligations) and IPSAS 41

Background

IE55. An individual donates shares in listed Entity X to public sector Entity Y on January 1, 20X8. At that date, the shares in Entity X have a fair value of CU1,000,000. At December 31, 20X8, the fair value of the shares is CU900,000. As part of the arrangement, Entity A incurs the transfer duty to have the shares transferred into its name. These costs amount to CU10,000.

IE56. Entity A measures investments in shares at fair value through net assets/equity when the shares

are not held for trading. Assume that the arrangement is a contractual arrangement, no present obligations arise from the donation and that the entity's reporting period ends on December 31, 20X8.

Analysis

IE57. As Entity A received the shares as a donation, it used [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations)* to initially recognize the shares acquired and the related non-exchange revenue. However, because Entity A has acquired a financial asset, it considers the initial measurement requirements of [draft] IPSAS [X] (ED 71) and IPSAS 41.

IE58. [Draft] IPSAS [X] (ED 71) prescribes that assets acquired as part of a non-exchange revenue transaction are initially measured at fair value, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As the entity has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

IE59. The subsequent measurement and derecognition of the shares is addressed in IPSAS 41. The entity measures investments in shares at fair value through net assets/equity which means that the shares are measured at a fair value with any subsequent changes in fair value recognized in net assets/equity. Dividends are however recognized in surplus or deficit

The journal entries at initial acquisition and at the reporting dates are as follows:

1.	Acquisition of shares through donation			
Dr		Investment in Entity X	CU1,010,000	
	Cr	Revenue without Performance Obligations		CU1,000,000
	Cr	Bank (Transfer costs paid)		CU10,000
2.	Subsequent measurement at December 31, 20X8			
Dr		Net assets/equity (fair value adjustment of investment)	CU110,000	
	Cr	Investment in Entity X		CU110,000
Dr				
	Cr			

Example 26 – Transaction with one component which is within the scope of [draft] IPSAS (ED 70) Revenue with Performance Obligations, and another component which is within the scope of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations (paragraph 8)

IE60. A hospital foundation is raising funds by selling tickets to a networking dinner. The price of each ticket is CU300, and each ticket clearly states that if the networking dinner is cancelled, the foundation will only return CU100 to each ticket holder. Each ticket also clearly states that the remaining CU200 of consideration is non-refundable. Other than the networking dinner, the foundation is not obliged to provide any other good or service to the ticketholders.

IE61. The foundation applies paragraph 8 of [draft] IPSAS [X] (ED 71) and concludes that the disclosed cancellation terms provide evidence that each ticket consist of two components:

(a) CU100 of the transaction price relates to the promise to provide admission at the networking dinner to each ticket holder; and

(b) The remaining CU200, which is non-refundable, is considered a donation to the foundation, as the foundation is not obliged to provide any good or service in exchange for this amount.

IE62. Accordingly, CU100 of the consideration received for each ticket is within the scope of [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, while the remaining CU200 per ticket is accounted for in accordance with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

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IPSASB International Public Sector Accounting Standards Board®

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org