

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: June 21–24, 2022

Agenda Item 3

For:

☐ Approval

☒ Discussion

☐ Information

REVENUE AND TRANSFER EXPENSES

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| Project summary | <p>The aim of the Revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions.</p> <p>The aim of the Transfer Expenses project is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expense transactions, except for social benefits.</p> | |
| Drafting Group | <ul style="list-style-type: none"> • Ian Carruthers, IPSASB Chair (Drafting Group Chair) • Todd Beardsworth, IPSASB Member • Claudia Beier, IPSASB Member • Lindy Bodewig, IPSASB Member • Lynn Pamment, IPSASB Member • Patricia Siqueira Varela, IPSASB Member • Johanna Clark, UNICEF • Nicole Smith, European Commission | |
| Meeting objectives Project management | Topic | Agenda Item |
| | Revenue and Transfer Expenses: Project Roadmap | 3.1.1 |
| | Instructions up to Previous Meeting | 3.1.2 |
| | Decisions up to Previous Meeting | 3.1.3 |
| Decisions required at this meeting | Transfer Expenses | |
| | Landscape of the Transfer Expenses Project | 3.2.1 |
| | Accounting for Transfer Expenses | 3.2.2 |
| | Recognition of a Liability Prior to the Transfer | 3.2.3 |
| | Application of the Revised Transfer Expense Model to Appropriations | 3.2.4 |
| | Proposed Amendments to Address Impairment and Onerous Contracts | 3.2.5 |
| | Revenue | |
| | Subsequent Measurement for Non-Contractual Receivables | 3.2.6 |
| | Disclosure Requirements for Revenue Transactions | 3.2.7 |
| | Accounting for Revenue from Capital Transfers | 3.2.8 |

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| | Snapshot of Guidance Source Material | 3.2.9 |
| Other supporting items | Supporting Document 1 – Draft Revenue IPSAS | 3.3.1 |
| | Supporting Document 2 – Updated Project Plans | 3.3.2 |
| | Supporting Document 3 – Transactions in the Revenue and Transfer Expenses Projects | 3.3.3 |

REVENUE AND TRANSFER EXPENSES: PROJECT ROADMAP

| Meeting | Completed Actions or Discussions / Planned Actions or Discussions: |
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| Revenue with Performance Obligations | |
| March 2015 | 1. Approve Project Brief |
| June 2016 | 1. Discussion of the performance obligation approach with the Consultative Advisory Group |
| June 2017 | 1. Approve Consultation Paper |
| March 2018 to December 2018 | 1. Review Responses to the Consultation Paper |
| March 2019 | 1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft |
| June 2019 | 1. Preliminarily approve updates to the core text and authoritative guidance of the Exposure Draft |
| December 2019 | 1. Approve Exposure Draft |
| March 2020 to September 2020 | 1. Document Out for Comment |
| December 2020 to March 2021 | 1. Review Responses 2. Discuss Issues |
| June 2021 to March 2022 | 1. Review Responses 2. Discuss Issues 3. Develop IPSAS |
| June 2022 to September 2022 | 1. Review Responses 2. Discuss Issues 3. Develop IPSAS |
| December 2022 | 1. Approve IPSAS |
| Revenue without Performance Obligations | |
| 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, and discuss issues |
| December 2019 | 1. Approve Exposure Draft |
| March 2020 to September 2020 | 1. Document Out for Comment |

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| December 2020 to March 2021 | 1. Review Responses 2. Discuss Issues |
| June 2021 to March 2022 | 1. Review Responses 2. Discuss Issues 3. Develop IPSAS |
| June 2022 to September 2022 | 1. Review Responses 2. Discuss Issues 3. Develop IPSAS |
| December 2022 | 1. Approve IPSAS |
| Transfer Expenses | |
| March 2018 | 1. Review of responses – PSPOA 2. Review of responses – subsequent measurement of non-contractual payables |
| June 2018 | 1. Discussion of use of PSPOA for non-exchange expenses |
| September 2018 | 1. Discussion of use of PSPOA for non-exchange expenses |
| March 2019 | 1. Initial discussion of objective and scope 2. Initial discussion of definitions 3. Discussion of PSPOA 4. Initial discussion of presentation 5. Initial discussion of effective date and transition requirements 6. Initial review of draft ED |
| June 2019 | 1. Discussion of scope and definitions 2. Discussion of subsidies and premiums 3. Discussion of additional material to be included in the ED 4. Discussion of examples to be included in the ED |
| September 2019 | 1. Disclosures – discussion of issues 2. Review of initial draft of ED |
| December 2019 | 1. Review of draft ED final amendments 2. Review of examples – exception basis only 3. Approval of ED |
| March 2020 to September 2020 | 1. Document Out for Comment |
| December 2020 to April 2021 | 1. Review Responses 2. Discuss Issues |
| June 2021 to March 2022 | 1. Review Responses 2. Discuss Issues 3. Develop IPSAS |
| June 2022 to September 2022 | 1. Review Responses 2. Discuss Issues 3. Develop IPSAS |
| December 2022 | 1. Approve IPSAS |

INSTRUCTIONS UP TO PREVIOUS MEETING

| Meeting | Instruction | Actioned |
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| Revenue | | |
| March 2022 | 1. Incorporate a diagram into the existing Basis for Conclusions to clarify the relationship between the new term 'compliance obligation' and present obligations and performance obligations. | 1. Incorporated into the Basis for Conclusion (BC) and reviewed by the Drafting Group. |
| March 2022 | 2. Work with the Drafting Group to revise the definition of 'compliance obligation' and ensure the guidance clarifies that compliance is in relation to the terms of the binding arrangement. | 2. Incorporated and reviewed by the Drafting Group – see Agenda Item 3.3.1 |
| March 2022 | 3. Incorporate proposed non-authoritative guidance, with revisions to clarify the implications of internal and external factors on accounting for a binding arrangement. | 3. Incorporated and reviewed by the Drafting Group – see Agenda Item 3.3.1 |
| October 2021 | 1. Consider how to communicate alignment with IFRS in supplemental materials. | 1. Pending |
| September 2021 | 1. Revise authoritative guidance to articulate the principle related to the recognition of a liability (deferred revenue) associated with an entity's (i.e., transfer recipient's) present obligation(s) in a binding arrangement, and ensure non-authoritative guidance clarifies how other liabilities that may arise in a binding arrangement should be accounted for using other IPSAS. | 1. Incorporated and reviewed by the Drafting Group – see Agenda Item 3.3.1 |
| September 2021 | 2. Consider the identified principle in the context of existing Capital Transfers examples (proposed in ED 71) to confirm that the principle is appropriate, and incorporate additional drafting if necessary. | 2. See Agenda item 3.2.8 |
| September 2021 | 3. Ensure the draft IPSAS include clear structure and signposting for ease of use. | 3. In progress |
| June 2021 | 1. Provide non-authoritative guidance to clarify that an entity should consider both explicit and implicit consequences in its assessment of the mechanisms of enforceability in a binding arrangement. | 1. In progress |

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| March 2021 | 1. Recommend amended title(s) for the proposed revenue standard(s) when all key decisions have been made in the Revenue project. | 1. In progress – tentatively expect to the title “Revenue” based on October 2021 Agenda Item 3.2.1 decision to have only one Revenue IPSAS |
| March 2021 | 2. Draft additional Basis for Conclusions paragraphs to address concerns from specific constituents to explain why the IPSASB decided to move away from using exchange and non-exchange as defined terms to classify revenue and to explain that it remains an appropriate concept used to describe the economic substance of such transactions in the public sector. | 2. Drafted – pending review by Drafting Group |
| March 2021 | 3. Clarify the guidance for situations where the satisfaction of a present or performance obligation occurs prior to the receipt of cash and incorporate this guidance in an example on multi-year arrangements. | 3. In progress |
| December 2020 | 1. Regarding the staff’s proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector. | 1. See Agenda Item 3.2.7 |
| December 2019 | 1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations | 1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations |
| Transfer Expenses | | |
| March 2022 | 1. Relocated the proposed guidance on the relationship between the definition of transfer expense and existence of transfer provider’s binding arrangement asset to the Basis for Conclusions and review | 1. Relationship is incorporated into Agenda Items 3.2.1-3.2.2 . Drafting in progress. |

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| | the text to ensure that this does not remove necessary guidance. | |
| March 2022 | 2. Incorporate proposed non-authoritative guidance, with revisions to clarify the implications of internal and external factors on accounting for a binding arrangement. | 2. Incorporated into Agenda Item 3.2.2 . Drafting pending. |
| March 2022 | 3. Revise the drafting to enhance the clarity of the text and ensure consistency with the principles in the draft revenue IPSAS, where appropriate. | 3. Drafting in progress. |
| March 2022 | 4. Consider appropriate disclosure requirements in light of the revised drafting. | 4. Drafting in progress. |
| March 2022 | 5. Revise the drafting for consistency and clarity, ensuring that text matches the principle that transaction consideration should be allocated to transfer rights. | 5. Incorporated into Agenda Item 3.2.2 . Drafting in progress. |
| March 2022 | 6. Consider whether Implementation Guidance may be helpful, based on clarity of principles in authoritative text, to reduce complexity of the drafting. | 6. Drafting in progress. |
| December 2021 | 1. Review the distinction between transfer expenses where the transfer of resources is not related to a liability, and those where the transfer of resources settles a liability arising outside a binding arrangement, and develop an overview of the <i>Transfer Expenses</i> IPSAS scope and 'landscape', taking into account: the starting point needs to be the definition of a transfer expense; the need to ensure there are no gaps in the guidance; the IPSASB's earlier decision that IPSAS 19 is the residual guidance; and the examples of transactions provided by IPSASB members. | 1. Accounting model has been reworked. See Agenda Item 3.2.2 . |
| December 2021 | 2. Revise the drafting of the proposed accounting model for transfer expenses without binding arrangements in the context of the landscape overview instructed under item 8.2.1 to provide additional guidance for transfers of resources made to settle a liability, taking into account: the need to | 2. Drafting in progress. |

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| | avoid duplicating guidance that already exists in IPSAS 19; and providing clearer signposting on when a transfer provider should apply the requirements of IPSAS 19. | |
| December 2021 | 3. Incorporate the flowchart from the presentation into the guidance in the <i>Transfer Expenses</i> IPSAS. | 3. Drafting in progress. |
| December 2021 | 4. Consider how to communicate the reasons for measuring non-cash transfers at the carrying amount of the resource transferred, and the consistency with the measurement of the resources received in the <i>Revenue</i> IPSAS. | 4. Drafting in progress. |
| December 2021 | 5. Revise the drafting of the proposed accounting model for transfer expenses with binding arrangements to provide additional guidance for transfers of resources made to settle a liability, taking into account: the interaction between the recognition of an asset where resources are transferred prior to the transfer recipient fulfilling its obligations and the definition of a transfer expense; and the impact of monitoring arrangements on the recognition of the asset. | 5. Drafting in progress |
| December 2021 | 6. Revise the proposed drafting related to cost of services provided by transfer provider and impairment. | 6. Drafting in progress. |
| September 2021 | 1. Consider the need for additional illustrative examples to demonstrate how service potential is generated when the transfer recipient fulfills certain present obligations. | 1. Drafting in progress. |
| September 2021 | 2. Draft a Basis for Conclusion that highlights how the proposed change in principle from what was proposed in ED 72 responds to constituent concerns about the practicality and implementation of proposed guidance. | 2. Drafting in progress. |
| September 2021 | 3. Propose revised or additional guidance on the subsequent measurement of the transfer provider's asset, including guidance on when the asset should be impaired. | 3. Drafting in progress |

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| September 2021 | 4. Ensure the draft IPSAS include clear structure and signposting for ease of use. | 4. Drafting in progress. |
| June 2021 | 1. Provide non-authoritative guidance to clarify that an entity should consider both explicit and implicit consequences in its assessment of the mechanisms of enforceability in a binding arrangement. | 1. Drafting in progress. |
| April 2021 | 1. Reconsider the working title of the proposed transfer expense standard after reviewing and assessing constituent comments on scope. | 1. In progress – tentatively expect to retain the title ‘Transfer Expenses’ based on September 2021 Agenda Item 4.2.3 |
| April 2021 | 2. Consider whether there are any useful implementation examples that clearly communicate the principles and are jurisdictionally neutral. | 2. Drafting in progress. |
| April 2021 | 3. Clarify in guidance that the transfer provider may provide non-cash assets as part of the fulfillment of specific obligations in a binding arrangement. | 3. Drafting in progress. |
| April 2021 | 4. Propose guidance on how to account for transfer expense transactions in both the separate and consolidated financial statements of counterparties within the same economic entity, with consideration of any relevant existing guidance in IPSAS 35. | 4. Drafting in progress. |
| April 2021 | 5. Consider whether disclosures are necessary for binding arrangements that are equally unfulfilled at reporting date; and if so, what disclosures are required. | 5. Drafting in progress. |
| April 2021 | 6. Provide specific guidance through examples on accounting for partially fulfilled binding arrangements. | 6. Drafting in progress. |
| December 2020 | 1. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector. | 1. Drafting in progress. |

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| December 2019 | 1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses | 1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses |
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DECISIONS UP TO PREVIOUS MEETING

| Meeting | Decision | BC Reference |
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| Revenue | | |
| March 2022 | 1. The term 'compliance obligation' should be used for the single concept of an entity's legally binding obligation arising from a revenue transaction with a binding arrangement. | 1. Incorporated – drafted Basis for Conclusion (BC) is pending review |
| March 2022 | 2. After approval of the new Revenue and Transfer Expenses pronouncements, if the IPSASB votes to re-expose, the new Exposure Draft should include a Specific Matter for Comment related to the new term for the single concept of an entity's legally binding obligation in a revenue transaction with binding arrangements. | 2. Pending |
| March 2022 | 3. An entity should consider whether changes in external factors indicate a change in the substance of its binding arrangement, or collectively with internal factors (such as intention to enforce) inform subsequent measurement considerations. | 3. Incorporated – drafted BC is pending review |
| December 2021 | 1. An entity's obligation in a binding arrangement in Revenue accounting is a narrower concept than 'present obligation' in the IPSASB Conceptual Framework: it is a legally binding obligation in a binding arrangement, which is a unit of account for revenue accounting, to use resources received/receivable in compliance with the terms of the binding arrangement. | 1. Incorporated – BC presented March 2022 Agenda Item 8.2.3 |
| December 2021 | 2. The existing term 'performance obligation' should be adopted for binding obligations arising from revenue transactions with binding arrangements subject to any further staff analysis. | 2. Incorporated – BC presented March 2022 Agenda Item 8.2.3 |
| December 2021 | 3. The proposed guidance should be incorporated in the Revenue IPSAS to clarify how an entity should distinguish its individual obligations | 3. Incorporated – drafted BC is pending review |

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| | in a binding arrangement, with refinements. | |
| December 2021 | 4. Specified activities and eligible expenditures are examples of ways in which an entity may fulfill its obligations in a binding arrangement. | 4. Incorporated – drafted BC is pending review |
| October 2021 | 1. Revenue guidance should be presented as a single IPSAS. | 1. Incorporated – BC presented March 2022 Agenda Item 8.2.3 |
| September 2021 | 1. A transfer recipient recognizes a liability (deferred revenue) in its binding arrangement when it has received resources prior to fulfilling its present obligation(s), and the enforceable terms of the binding arrangement require the entity (i.e., the transfer recipient) to transfer resources to another party if it does not fulfill its present obligations. | 1. Incorporated – drafted BC is pending review |
| September 2021 | 2. A liability (deferred revenue) is extinguished as the transfer recipient fulfills its present obligations to earn revenue. | 2. Incorporated – drafted BC is pending review |
| September 2021 | 3. The detailed review of guidance in the draft pronouncements, based on Board decisions for the Revenue and Transfer Expenses projects, be delegated to the Drafting Group. | 3. In progress. BC pending. |
| September 2021 | 4. The guidance in the draft IPSAS based on ED 71 and ED 72 be reordered to require the entity to consider up front whether the transaction arises without or with a binding arrangement. | 4. In progress. BC pending. |
| June 2021 | 1. Retain the definition of a 'binding arrangement' in the Revenue standard(s), as it is conceptually consistent with the definitions elsewhere in IPSAS literature, with the following minor wording revisions: include "for the purposes of this Standard," and "enforceability through legal or equivalent means", and change "both parties" to "the parties". | 1. Incorporated – drafted BC is pending review |
| June 2021 | 2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue. | 2. Incorporated – drafted BC is pending review |

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| June 2021 | 3. Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance. | 3. Incorporated – drafted BC is pending review |
| June 2021 | 4. Confirm that the assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement. | 4. Incorporated – drafted BC is pending review |
| June 2021 | 5. Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation' | 5. Incorporated – drafted BC is pending review |
| June 2021 | 6. Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording clarifies (i.e., does not substantially change) the underlying concepts. | 6. Processed in the Conceptual Framework project. Also incorporated in drafting. |
| June 2021 | 7. Incorporate additional guidance and examples into the Conceptual Framework on 'transfer of resources', as outlined in the Agenda Item, to clarify the ambiguities associated with what entails a 'transfer of resources' | 7. Processed in the Conceptual Framework project. |
| April 2021 | 1. Confirm, for revenue, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations). | 1. Incorporated in drafting. BC pending |
| April 2021 | 2. An entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitutes a single asset or liability. | 2. Incorporated in drafting. BC pending |

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| March 2021 | 1. Revise the title(s) of the proposed revenue standard(s) to reflect the nature of revenue transactions in the public sector. | 1. In progress – tentatively expect to the title “Revenue” based on October 2021 Agenda Item 3.2.1 decision to have only one Revenue IPSAS. |
| March 2021 | 2. For the time being, continue to present revenue guidance as two separate standards with the standard based on ED 71, <i>Revenue without Performance Obligations</i> first (i.e., Option 1). | 2. N/A – no longer necessary based on October 2021 Agenda Item 3.2.1 decision to have a single Revenue IPSAS. |
| March 2021 | 3. Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation. | 3. Incorporated and reviewed in 2021 |
| March 2021 | 4. Adopt the principle that enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations. | 4. Incorporated and reviewed in 2021 |
| March 2021 | 5. Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. | 5. Incorporated and reviewed in 2021 |
| March 2021 | 6. Retain revenue from performance obligations as a separate type of revenue. | 6. Incorporated and reviewed by the Drafting Group concurrent with other 2021 decisions. |
| March 2021 | 7. Highlight that performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary. | 7. Incorporated and reviewed by the Drafting Group concurrent with other 2021 decisions. |
| March 2021 | 8. Revise existing Application Guidance to state that, where there is objective evidence that a portion of consideration relates to the transfer of distinct goods or services to the purchaser/transfer provider or a third-party beneficiary, disaggregate the transaction price and account for the component(s) | 8. N/A – no longer necessary based on October 2021 Agenda Item 3.2.1 decision to have a single Revenue IPSAS. |

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| | relating to the transfer of distinct goods or services in accordance with ED 70, <i>Revenue with Performance Obligations</i> then use ED 71 to account for any remaining component(s). If the portion is unclear, account for the entire transaction in accordance with ED 71. | |
| March 2021 | 9. Highlight that enforceability in a binding arrangement gives rise to a liability (deferred revenue) for the transfer recipient to the extent that the terms of the arrangement are not yet satisfied. | 9. Incorporated – drafted BC is pending review |
| March 2021 | 10. Proceed with the proposed Revenue project plan, use in-period review sessions as needed, and revisit the need, role, and composition of a Task Force in Q2 2021. | 10. See September 2021 Agenda Item 4.2.5 |
| December 2020 | 1. Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71, either as a separate standard, or a combined standard. | 1. N/A – based on October 2021 Agenda Item 3.2.1 |
| December 2020 | 2. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach focusing on the nature of the transactions and their risks. | 2. In progress, concurrently with IPSASB's decision on Agenda Item 3.2.7 |
| December 2019 | 1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations | 1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations |
| Transfer Expenses | | |
| March 2022 | 1. An entity should consider whether changes in external factors indicated a change in the substance of its binding arrangement, or collectively with internal factors (such as intention to enforce) inform subsequent measurement considerations. | 1. Drafting of Basis for Conclusion (BC) pending |
| December 2021 | 1. Non-cash resources transferred by a transfer provider should be measured at their carrying amount in line with the requirements in other IPSAS. | 1. Incorporated – see draft text in March 2022 Agenda Item 8.3.1 BC pending |

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| September 2021 | 1. Where the transfer provider in a binding arrangement transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset. | 1. Incorporated in December 2021 – see draft text in March 2022 Agenda Item 8.3.1 BC pending |
| September 2021 | 2. As an asset may exist where the transfer provider transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the accounting model adopted in ED 72 for transfer expenses where the transfer recipient has a present obligation should not be retained. | 2. Incorporated in December 2021 – see draft text in March 2022 Agenda Item 8.3.1 BC pending |
| September 2021 | 3. Revisions, proposed in the Appendices, to address constituent concerns should be incorporated into the draft IPSAS based on ED 72 (except for Recommendation 3 on binding arrangements and onerous contracts). | 3. Incorporated in December 2021 – see draft in March 2022 Agenda Item 8.3.1 BC pending |
| September 2021 | 4. The distinction between transfer expenses with performance obligations and transfer expenses without performance obligations previously proposed in ED 72 should be removed, as it is not useful from a transfer provider perspective. | 4. Incorporated in December 2021 – see draft text in March 2022 Agenda Item 8.3.1 BC pending |
| September 2021 | 5. The detailed review of guidance in the draft pronouncements, based on Board decisions for the Revenue and Transfer Expenses projects, be delegated to the Drafting Group. | 5. In progress. BC pending |
| September 2021 | 6. The guidance in the draft IPSAS based on ED 71 and ED 72 be reordered to require the entity to consider up front whether the transaction arises without or with a binding arrangement. | 6. Incorporated in December 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| June 2021 | 1. Incorporate the definition of a 'binding arrangement' (as decided above for Revenue) into the final Transfer Expenses standard to ensure the standards are conceptually consistent and freestanding. | 1. Incorporated in September 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |

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| June 2021 | 2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue. | 2. Incorporated in September 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| June 2021 | 3. Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance. | 3. Incorporated in September 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| June 2021 | 4. Confirm that the assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement. | 4. Incorporated in September 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| June 2021 | 5. Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation' | 5. Incorporated in September 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| June 2021 | 6. Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording clarifies (i.e., does not substantially change) the underlying concepts. | 6. Processed in the Conceptual Framework project. Also incorporated in preliminary draft in March 2022 Agenda Item 8.3.1 |
| April 2021 | 1. Address principle-related issues raised by constituents first, before considering other issues raised. | 1. In progress |
| April 2021 | 2. Revise the presentation of guidance in the transfer expense standard to better reflect the public sector. | 2. Incorporated in September 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| April 2021 | 3. Retain binding arrangement as a fundamental concept for transfer expense accounting. Principles related to binding arrangements should be consistent. Identification and assessment of a binding arrangement is from the perspective of the entity. | 3. Incorporated in June 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |

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| April 2021 | 4. Confirm that, in a binding arrangement, each party will have at least one present obligation. | 4. Incorporated in June 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| April 2021 | 5. Confirm that enforceability can be demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis. | 5. Incorporated in June 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| April 2021 | 6. Confirm that enforceability of a binding arrangement may give rise to an asset for the transfer provider when it is partially fulfilled. | 6. In progress – Decision will be addressed concurrently with September 2021 Agenda Item 4.2.2 |
| April 2021 | 7. Be conceptually consistent with the present obligation principles developed for revenue, and consider substance of the arrangement from the different perspectives (transfer provider vs. transfer recipient) in assessing whether to retain the distinction of performance obligations for transfer expense accounting. | 7. See September 2021 Agenda Item 4.2.4 BC pending |
| April 2021 | 8. Consider the implication of the IPSASB's decision on the treatment of “consideration not directly attributable to the transfer of distinct goods or services” at a later date, based on the decision to either retain or remove the distinction of transfer expenses with and without performance obligations. | 8. N/A – distinction removed based on September 2021 Agenda Item 4.2.4 BC pending |
| April 2021 | 9. Incorporate executory contract accounting principles without explicitly referring to the term executory contracts. Drafting should refer to specific principles to account for binding arrangements. | 9. Incorporated in June 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| April 2021 | 10. Confirm, for transfer expenses, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations). | 10. Incorporated in June 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |

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| April 2021 | 11. Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability. | 11. Incorporated in June 2021 – see preliminary draft in March 2022 Agenda Item 8.3.1 BC pending |
| December 2020 | 1. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach focusing on the nature of the transactions and their risks. | 1. Drafting in progress |
| December 2019 | 1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses | 1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses |

Landscape of the Transfer Expenses Project

Purpose

1. To provide an overview of the landscape of the Transfer Expense project as of June 2022.

Background

2. Exposure Draft (ED) 72, *Transfer Expenses*, was approved by the IPSASB in 2019 and issued in February 2020. ED 72 proposed an accounting model for transfer expenses which mirrored the Public Sector Performance Obligation Approach proposed in ED 70, *Revenue with Performance Obligations*. Based on the response letters received, the IPSASB decided to reshape the accounting model, approach, and structure for transfer expenses.
3. This paper outlines the key decisions up to March 2022, the key outstanding areas to be considered when developing the revised proposals on transfer expenses, and provides a proposed timeline for finalizing the revised draft standard.

The Landscape

4. The diagram in Appendix 1 illustrates the revised proposed structure of the Transfer Expenses IPSAS, with key IPSASB decisions to date on the left, and key outstanding decisions listed on the right.
5. The key decisions which have a direct impact on the issues discussed in Agenda Items 3.2.2-3.2.5 are as follows:

Decisions Regarding Recognition of Transfer Expenses

- (a) The accounting for transfer expenses should consider the perspective of the entity. (April 2021)
This consideration resulted in the knock-on decision to remove the distinction between transfer expenses with and without performance obligations, as it is not useful from a transfer provider's perspective (September 2021);
- (b) The transfer provider should account for a transfer expense based on its rights from a binding arrangement rather than the transfer recipient's compliance obligations;¹
- (c) Where the transfer provider in a binding arrangement transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset (September 2021). (Consistent with the discussion in March 2022, the remaining papers on transfer expenses use the term "transfer right" to refer to the transfer provider's enforceable right. However, the IPSASB has not yet made a formal decision on the use of this term);
- (d) Because of the above decisions, the accounting model adopted in ED 72 for transfer expenses where the transfer recipient has a present obligation should not be retained (September 2021).

¹ These decisions were embedded in the instruction from Agenda Item 8.2.6 in March 2022 to revise the draft standard to be consistent with these principles.

Decisions Relating to Measurement of Transfer Expenses

- (e) Non-cash resources transferred by a transfer provider should be measured at their carrying amount in line with the requirements in other IPSAS (December 2021);
- (f) Use transfer rights as the unit of account to allocate consideration within a transfer expense arrangement;¹ and

Other Relevant Decisions

- (g) Onerous contracts guidance in IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is not relevant to transfer expenses and that staff should consider the issues in the context of whether impairment is required (September 2021).
6. As noted in [Agenda Item 3.1.3](#), the IPSASB made other decisions on revenue and transfer expenses, such as decisions on scope, definitions, enforceability, measurement, etc. The staff proposals in the following papers build on the IPSASB's decisions to date.
 7. Based on the decisions made up to March 2022, staff distilled a list of key outstanding issues. The following table summarizes the outstanding issues and the proposed dates for when these issues will be brought forward to the IPSASB for consideration:

| | |
|---|--|
| How should the proposed accounting model for transfer expenses be revised? | June 2022 (Agenda Item 3.2.2) |
| How does the existence of a binding arrangement impact the revised model? | June 2022 (Agenda Item 3.2.2) |
| How does the transfer provider's ability to monitor the transfer recipient be factored into the revised accounting model? | June 2022 (Agenda Item 3.2.2) |
| Are there situations where a liability needs to be recognized prior to a transfer? | June 2022 (Agenda Item 3.2.3) |
| How are appropriations accounted for under the revised proposals? | June 2022 (Agenda Item 3.2.4) |
| How should the issue of impairment be considered in the context of transfer expenses? | June 2022 (Agenda Item 3.2.5) |
| Under the revised model, what disclosures for transfer expenses should be required? | September 2022 |

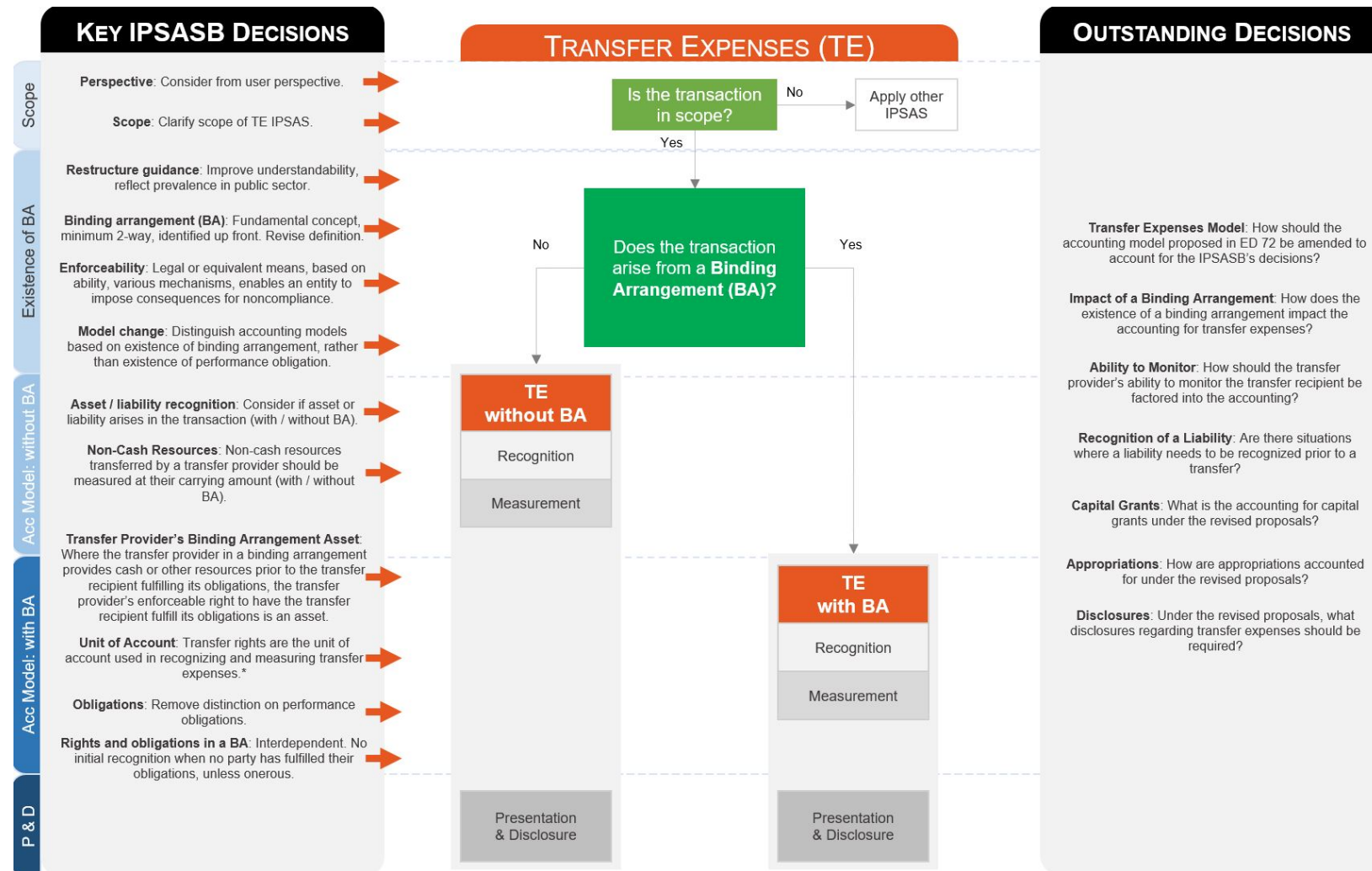
8. As previously decided by the IPSASB, the drafting impact of the decisions from the above issues will be reviewed by the Revenue and Transfer Expense Drafting Group. The final draft standard is expected to be presented to the IPSASB at the December 2022 meeting.
9. Based on the discussions to date, the flowchart in Appendix 2 outlines the possible scenarios for transfer expense transactions and shows where the proposed accounting considerations are discussed in Agenda Items [3.2.2](#), [3.2.3](#), and [3.2.5](#).

Decision Required

10. For information only. No decision required.

Appendix 1 – Landscape of the Transfer Expense Project

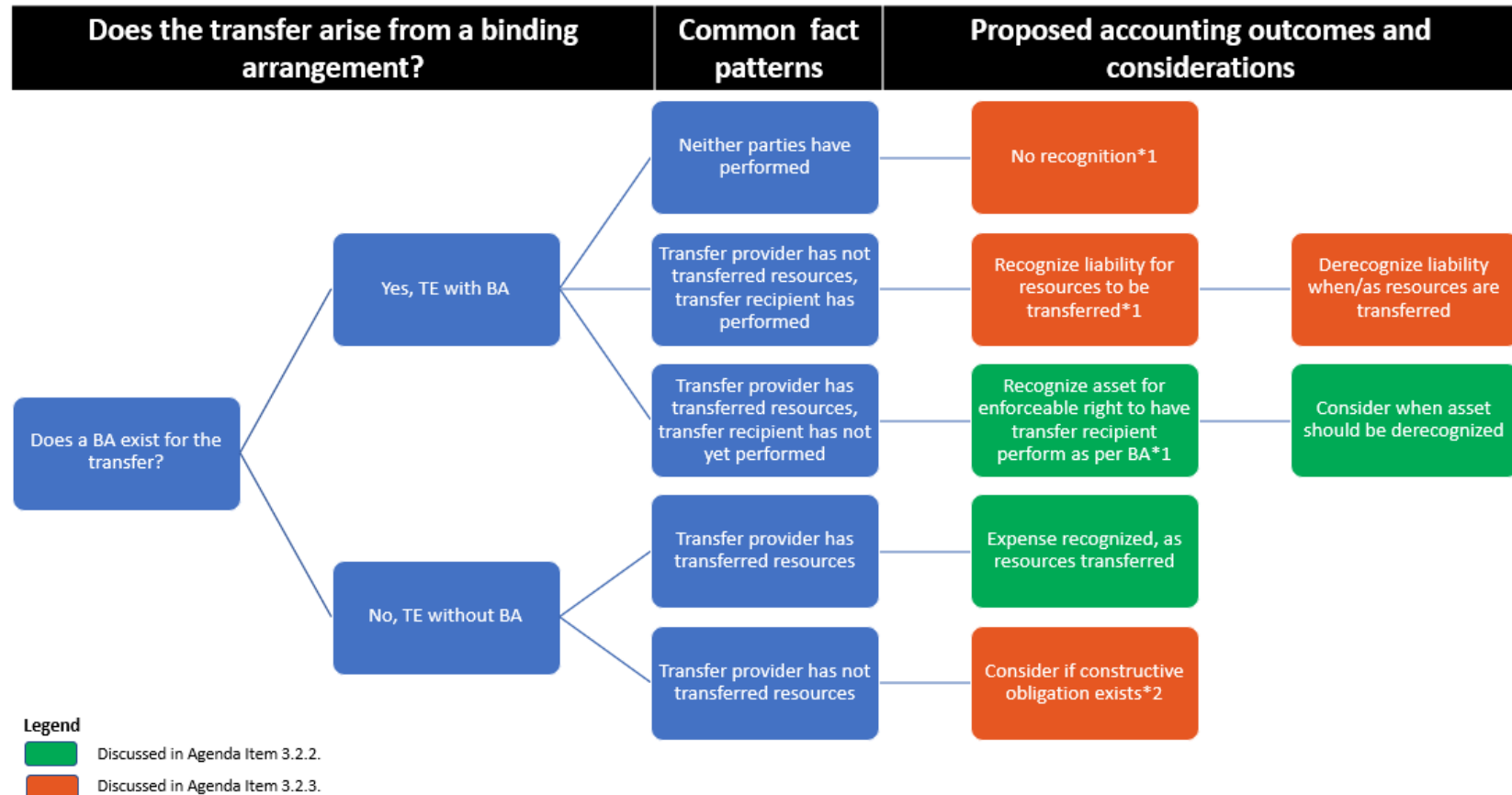
This diagram illustrates the revised Transfer Expense draft IPSAS, with key decisions taken up to March 2022 listed on the left side, and key issues to be considered listed on the right.



* This decision was embedded in the instruction from Agenda Item 8.2.6 in March 2022 to revise the draft standard to be consistent with this principle.

Appendix 2 – Common Transfer Expense Fact Patterns and Proposed Accounting Outcomes and Considerations

This diagram illustrates the common fact patterns for transfer expense transactions and the proposed accounting treatment and considerations for each fact pattern.



*1 Consider if the binding arrangement indicates impairment of the underlying asset(s) to be transferred. See Agenda Item 3.2.5.

*2 Even when a transfer expense arises from a binding arrangement, there could be situations where a constructive obligation could exist outside of the arrangement. See Agenda Item 3.2.3.

Accounting for Transfer Expenses

Question

1. Does the IPSASB agree with the proposed approach to account for transfer expenses?

Recommendation

2. Staff recommend that the transfer expense accounting model:
 - (a) Emphasizes that the key transfer expense accounting principle is determining whether the expenditure should be accounted for as an asset or expense; and
 - (b) That identifying whether the transaction arises from a binding arrangement, helps an entity make this determination by providing inputs into this assessment.

Background

3. As noted in [Agenda Item 3.2.1](#), the IPSASB had previously made a number of key decisions regarding the accounting for transfer expenses and instructed staff to revisit the accounting model for transfer expenses. This paper outlines the revised proposals.

Analysis

4. The following analysis focuses on the scenario where a transfer provider transfers resources to a transfer recipient prior to the transfer recipient fulfilling its obligations. In these situations, the IPSASB had previously decided that the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset. In March 2022, this right was referred to as a "transfer right". Operationally, the key accounting consideration for these transactions is when this transfer right should be derecognized and expensed. (Other scenarios, such as when the transfer provider may need to recognize a liability prior to the transfer, are discussed in [Agenda Item 3.2.3](#)).

Interaction Between Transfer Expenses and Revenue Proposals

5. The transfer provider and transfer recipient account for the same transfer transaction based on their own unique perspectives and the terms and conditions of the transactions (including the terms of a binding arrangement when there is one):
 - (a) For transfer expenses, the key accounting consideration is whether the debit should be recorded as an asset or expense. This decision is largely driven by whether the transfer results in a transfer right that meets the definition of an asset; and
 - (b) For revenue, the key accounting consideration is whether an amount can be recognized as revenue. Operationally, this comes down to the determination of whether the revenue transaction should result in a credit to revenue or liability, and this determination is largely driven by whether the transfer recipient has satisfied its compliance obligations (if any).

Proposed Underlying Principle and New Accounting Model for Recognition of Transfer Expenses

6. Building on the Board's prior decisions, staff propose the following underlying principle and accounting model for transfer expenses. In the scenario where a transfer provider transfers resources to a transfer recipient prior to the transfer recipient fulfilling its obligations²:
- (a) The accounting for transfer expenses will depend on whether the transaction results in an amount that satisfies the asset recognition criteria—i.e., whether the transaction results in an amount that meets the definition of an asset (a resource controlled by the entity as the result of past events) and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs;
 - (b) The IPSASB previously decided that a transfer right (the transfer provider's enforceable right from a binding arrangement to have the transfer recipient fulfill its obligation) is an asset. Therefore, the existence of a binding arrangement will have a significant impact on whether the transfer expense transaction results in an amount that meets the definition of an asset;
 - (c) If the amount does not meet the asset recognition criteria, or if there is uncertainty over whether the amount meets the asset recognition criteria, the amount is expensed immediately upon transfer. This outcome is expected to be the default position for most transfers in the public sector, as it is staff's understanding that the majority of transfers are made without a binding arrangement—see paragraph 10 below; and
 - (d) If the amount meets the recognition criteria, it is recognized as an asset until the criteria are no longer met, at which point it is expensed. This asset derecognition can occur at a point in time or over time depending on the terms of the arrangement. (Staff plan to provide more details on the pattern of derecognition at a future meeting once the IPSASB has agreed on the overall proposed accounting model.)
7. In practice, the key consideration in the above model is whether the entity controls a transfer right. This is because:
- (a) As part of the September 2021 decision that a transfer right is an asset, the IPSASB also agreed that a transfer right embodies a resource;
 - (b) The transfer of the resources which gave rise to the transfer right is the past event; and
 - (c) Based on previous decisions by the IPSASB regarding measurement, as noted in paragraphs 55(e) and 55(f) of [Agenda Item 3.2.1](#), the resource can be measured.

² As noted in paragraph 4, please see [Agenda Item 3.2.3](#) for scenarios where the transfer provider may need to recognize a liability prior to the transfer.

8. Control is determined by applying the indicators in paragraph 5.12 of the IPSASB's Conceptual Framework.³

Factors to be Considered in the Assessment

9. As noted in paragraph 6(b), and consistent with the proposed guidance on revenue, the existence of a binding arrangement will have a significant impact on the assessment of whether the transfer expense transaction results in an asset or expense.
10. If resources were transferred without a binding arrangement, the transfer provider typically has no recourse to exercise any control over the transferred resources or have enforceable rights for the transfer recipient to fulfil their obligations. Therefore, transfer expenses without a binding arrangement are expensed immediately upon transfer, as the entity has no ability to demonstrate control.
11. If a binding arrangement exists as part of the transfer expense transaction:
- (a) Binding arrangements are, by definition, an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. As noted in [Agenda Item 3.2.1](#), the IPSASB had previously concluded that the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (i.e., the transfer right) can meet the definition of an asset. This means that for a transfer expense arising from a binding arrangement, the key issue can be viewed as *when* the transfer right asset should be derecognized and expensed;
 - (b) If the transfer provider and the transfer recipient both fulfill their compliance obligations at the same time, the transfer provider's transfer right will no longer exist at the time of the transfer, and the transaction will result in an immediate expense;
 - (c) In other situations, the specific pattern of derecognition depends on the terms of each individual arrangement and the facts and circumstances driving the reduction or derecognition of the transfer provider's transfer rights. The transfer recipient's fulfilment of its compliance obligation is not the key driver of the derecognition of the transfer asset, and it is only one factor to be considered by the transfer provider. For example, a transfer recipient's fulfilment (or lack of fulfilment) of their compliance obligation(s) can serve as a proxy for whether the transfer provider continues to have enforceable rights under the binding arrangement. In some situations, when (or as) the transfer recipient fulfils its compliance obligations, the relevant binding arrangement may state that the transfer provider's transfer right is reduced. This will result in derecognition of the transfer asset and the recognition of an expense at a similar time as when the transfer recipient satisfies its obligations; and
 - (d) The specific terms and conditions within a binding arrangement are likely to provide additional evidence that an asset exists. For example, the ability for the transfer provider to monitor fulfilment of the arrangement by the transfer recipient provides further support that the

³ Paragraph 5.12 of the Conceptual Framework states: "In assessing whether it presently controls a resource, an entity assess whether the following indicators of control exist:

- Legal ownership;
 - Access to the resource, or the ability to deny or restrict access to the resource;
 - The means to ensure that the resource is used to achieve its objectives; and
 - The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.
- While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision."

arrangement is indeed enforceable and that a transfer right asset exists. Situations where the transfer provider does not appear to have the right or the ability to monitor compliance call into question whether a binding arrangement truly exists.

Decision Required

12. Does the IPSASB agree with the staff recommendation?

Recognition of a Liability Prior to the Transfer

Question

1. Does the IPSASB agree with the proposed accounting for situations where the transfer provider should recognize a liability prior to the transfer of resources?

Recommendation

2. Staff recommend proposing guidance that prior to the transfer of resources, a transfer provider should recognize a liability:
 - (a) If the transfer recipient has fulfilled their obligations in a transfer expense binding arrangement; or
 - (b) If a constructive obligation to transfer resources exists and results in the recognition of a liability in accordance with IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*. Under this scenario, a liability should be recognized even if there is no binding arrangement.

Background

Situations Arising from a Binding Arrangement

3. In September 2021, staff presented an analysis of the possible scenarios involving the fulfilment of obligations in a binding arrangement by both the transfer provider and transfer recipient. The IPSASB previously concluded that if neither party has fulfilled their obligations, no recognition takes place upon entering a binding arrangement based on executory contract principles.
4. [Agenda Item 3.2.2](#) addressed the scenario where the transfer provider fulfills its obligation prior to the transfer recipient fulfilling its obligations. Paragraph 11(b) of that paper also addressed situations where both parties have fulfilled their obligations.
5. This paper addresses the scenario where the transfer recipient has fulfilled its obligations in a binding arrangement prior to the transfer of resources by the transfer provider.

Situations Arising Outside a Binding Arrangement

6. In addition to the scenarios above, IPSAS 19 may also require a transfer provider to recognize a liability due to the existence of a constructive obligation. IPSAS 19 defines a constructive obligation as, “an obligation that derives from an entity’s actions where:
 - (a) By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
 - (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.”⁴
7. Constructive obligations are non-legally binding obligations under the Conceptual Framework, and in the context of transfer expenses, these obligations were previously discussed with the IPSASB in December 2021, where staff proposed to scope out transactions which are within the scope of IPSAS 19. In response, the IPSASB instructed the staff to:

⁴ IPSAS 19, paragraph 18.

- (a) Provide clearer signposting on when a transfer provider should apply the requirements of IPSAS 19; and
- (b) Avoid duplication of the guidance that already exists in IPSAS 19.

This paper also addresses these instructions.

Analysis

Situations Arising from a Binding Arrangement

- 8. When a transfer recipient fulfills its compliance obligations in a transfer binding arrangement prior to the transfer of resources by the transfer provider, the transfer provider will have an unfulfilled obligation to transfer resources in accordance with the terms of the arrangement. In this straightforward situation, and consistent with ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*, the transfer provider will need to recognize a liability for the transfer of resources. When the transfer provider extinguishes the obligation by transferring resources, this liability is derecognized.

Situations Arising Outside a Binding Arrangement

- 9. To address the IPSASB's instructions on IPSAS 19, rather than scoping out transactions that fall under IPSAS 19 then staying silent within the draft transfer expense standard, staff propose to:
 - (a) Include guidance explaining that in some situations, a constructive obligation to transfer resources could exist prior to the transfer of resources. This constructive obligation will result in the recognition of a provision (a liability) if recognition is required by paragraph 22 of IPSAS 19;
 - (b) Clearly explain that the recognition of a provision is driven by facts and circumstances which give rise to the existence of a constructive obligation. This means it is possible for a transfer provider to recognize a liability for a constructive obligation even when there is no binding arrangement;
 - (c) Explain that when recognizing a provision for a constructive obligation, the debit entry is an expense as the provision was recognized for a probable outflow of resources embodying economic benefits or service potential. i.e., the expense is driven by the recognition of a provision rather than the transfer of resources. When the underlying assets are ultimately transferred, the transfer is accounted for as a settlement of the provision;⁵
 - (d) Explain that if there is only a contingent liability (i.e., only a possible obligation to transfer resources that has yet to be confirmed), IPSAS 19 only requires disclosure; and
 - (e) Provide cross-references to the relevant paragraphs in IPSAS 19 rather than duplicating the guidance within the draft transfer expense standard.

Decision Required

- 10. Does the IPSASB agree with the staff recommendation?

⁵ It should be noted that IPSAS 19 does not have similar accounting for provisional assets, so there would be no symmetrical accounting for revenue by the transfer recipient.

Application of the Revised Transfer Expense Model to Appropriations

Question

1. Does the IPSASB agree with the proposed accounting for appropriations from the perspective of the transfer provider?

Recommendation

2. Staff recommend applying the general guidance on transfer expenses as proposed in Agenda Items [3.2.2](#) and [3.2.3](#) to appropriations.

Background

3. IPSAS 24, *Presentation of Budget Information in Financial Statements*, defines an appropriation as, “an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.”⁶
4. This paper considers if the accounting for appropriations from a transfer provider’s perspective requires the development of any new principles, and if not, how should a transfer provider account for appropriations using the general principles proposed for transfer expenses.

Analysis

5. As defined in IPSAS 24, an appropriation is the formal authorization to allocate funds which will, in general, be used for a transfer at a later time. Typically, the earmarking of funds itself is not a transaction or event which results in the recognition of an expense under IPSAS.
6. One of the key considerations that will impact the accounting is whether the appropriation and subsequent transfer arises from a binding arrangement. However, as discussed in [Agenda Item 3.2.3](#), when there is no binding arrangement, there could still be situations where a liability and expense may need to be recognized for a constructive obligation.
7. Based on this analysis, staff propose applying the general guidance on transfer expenses as proposed in Agenda Items [3.2.2](#) and [3.2.3](#) to appropriations. This will result in the following:
 - (a) If the transfer provider has determined that the appropriation and subsequent transfer arises from a binding arrangement:
 - (i) In situations where the appropriation is authorized but neither party has started to satisfy its obligations from the binding arrangement, no recognition takes place;
 - (ii) If the transfer provider has transferred resources, it applies the proposed guidance from [Agenda Item 3.2.2](#) to determine whether a transfer right asset exists, and when the asset should be derecognized and expensed;
 - (iii) If the transfer recipient has performed, the transfer provider recognizes a liability for the obligation to transfer resources. In addition, the transfer provider will no longer have any enforceable rights to have the transfer recipient fulfill its obligations, so a transfer expense will be recognized;

⁶ IPSAS 24, paragraph 7.

Agenda Item 3.2.4

- (b) Where an appropriation has created a valid expectation with other parties that the transfer provider is accepting and discharging certain responsibilities, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* would apply, and a provision (liability) would be recognized if a constructive obligation exists. This scenario is likely to take place when the appropriation is not a binding arrangement and is expected to be a common situation for the recognition of an expense for appropriations prior to the actual transfer of resources; and
 - (c) If the transfer provider has determined that the appropriation does not arise from a binding arrangement and there is no constructive obligation, a transfer expense is recognized as the transfer provider transfers assets to the transfer recipient and loses control of these assets.
8. Whether a constructive obligation arises from an appropriation depends on the facts and circumstances specific to each appropriation, and IPSAS 19 does not have an explicit list of factors to consider as it would not be possible to consider all possible scenarios. However, the following factors may provide some support for when an appropriation results in a constructive obligation:
- (a) The appropriation is in an announcement or other external communication which indicates to other parties that the transfer provider will accept certain responsibilities;
 - (b) The transfer provider has an established pattern of past practice based on approved appropriations;
 - (c) The transfer provider has published policies on how it will act based on approved appropriations; and
 - (d) The items in (a)-(c) above are sufficiently specific to create valid expectations of how the transfer provider will discharge its responsibilities, and it is probable that the discharge of its responsibilities will result in an outflow of resources.

The above factors are only examples and not an exhaustive list.

Decision Required

9. Does the IPSASB agree with the staff recommendation?

Proposed Amendments to Address Impairment and Onerous Contracts

Question

1. Does the IPSASB agree with the proposed approach to address the consideration of impairment and onerous contracts in the draft transfer expense standard?

Recommendation

2. Staff recommend:
 - (a) Emphasizing the transfer provider is required to consider whether the binding arrangement for a transfer provides any indication that the related asset(s) should be assessed for impairment; and
 - (b) Explaining in the Basis for Conclusion that the concept of onerous contracts only applies to contracts for the exchange of assets or services, and therefore does not apply to binding arrangements for transfer expenses.

Background

3. In September 2021, the IPSASB decided that the guidance on onerous contracts in IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is not applicable to transfer expenses. In addition, the board instructed staff to consider paragraph 80 of IPSAS 19 and the issue of whether impairment of the related assets is required.
4. This paper addresses how the draft standard on transfer expenses should be amended to incorporate the IPSASB's decision and instruction.

Analysis

5. In some situations, the binding arrangement for a transfer may result in the expectation of a transfer right asset which is of lower value than the underlying transferred assets. For transfer expenses, the transfer provider will not receive any goods, services, or other assets directly in return from the transfer recipient, so the "value" in this context could refer to the value of the goods, services or other assets provided to the third-party beneficiary by the transfer recipient, as directed by the transfer provider.⁷
6. For example, an entity enters a binding arrangement to transfer a non-financial asset, such as a building with a carrying amount of CU5 million, to a recipient who is then required to provide goods and services with a fair value of CU4 million to third-party beneficiaries (e.g., administration of vaccines to qualifying citizens). The lower value of the goods and services in the binding arrangement is an indicator that the building may be impaired, and the entity is required to test the asset for impairment.
7. For clarity, the impairment assessment is for the *underlying asset to be transferred*, not the transfer right arising from the transfer. Continuing with the example, if the entity concludes that the building is indeed impaired by CU1 million, this impairment loss is recorded to reduce the carrying amount of the building to CU4 million. Upon transfer of the building, the transfer is recorded using the reduced carrying amount of CU4 million.

⁷ The measurement of transfer rights was not finalized in March 2022, and this issue will be further discussed at a future meeting.

8. In situations like the example above, the act of entering the binding arrangement itself may provide evidence for an indicator of impairment. Regardless of whether either party has started to perform in accordance with the binding arrangement, the lower value of the transfer right is an indicator that the underlying assets to be transferred should be tested for impairment. This is consistent with the requirements of paragraph 80 of IPSAS 19.
9. In conjunction with the linkages to IPSAS 19 proposed in [Agenda Item 3.2.3](#), staff propose to:
 - (a) Explain that in some situations, a binding arrangement for a transfer may be an indicator of impairment of the underlying assets to be transferred. This consideration of impairment is consistent with the requirements in paragraph 80 of IPSAS 19;
 - (b) The transfer provider applies the impairment standards to determine if an indicator of impairment exists, and if applicable, tests the underlying asset for impairment; and
 - (c) Explain in the basis of conclusion that for a transfer provider:
 - (i) The concept of onerous contracts is not applicable to the binding arrangement for a transfer, as IPSAS 19 specifies that an onerous contract is a contract for the exchange of assets or services,⁸ while transfer expenses are, by definition, non-exchange transactions; and
 - (ii) Any potential loss from a binding arrangement for a transfer expense will be limited to the value of the goods, services, or other assets that the transfer provider has agreed to transfer, and that such potential loss will be captured by the impairment assessment noted in paragraph (b) above.

Other Issue

10. While not directly related to transfer expenses, it will be important to emphasize that unlike a transfer provider, a transfer recipient will need to apply the onerous contract provisions in IPSAS 19, because the cost of what the recipient has agreed to provide could potentially exceed the amount that is expected to be received from the binding arrangement. Staff noted that this point has already been added to the draft revenue standard, consistent with the IPSASB's decision on onerous revenue binding arrangements from April 2021, so no further action is required for the draft revenue standard.

Decision Required

11. Does the IPSASB agree with the staff recommendations?

⁸ IPSAS 19 states: "An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it." Staff noted that when IPSAS 19 was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of onerous contract was amended to explicitly refer to the exchange of assets or services. This addition clarifies that onerous contracts only applies to exchange transactions.

Subsequent Measurement for Non-Contractual Receivables

Question

1. Does the IPSASB agree to retain the proposed accounting for subsequent measurement of non-contractual receivables and to add non-authoritative guidance?

Recommendations

2. Staff recommend that the IPSASB:
 - (a) Retain (but relocate) the accounting principles proposed in the Exposure Drafts (EDs), as they are appropriate; and
 - (b) Add non-authoritative guidance as proposed in paragraph 7 to help entities apply the guidance.

Background

3. ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations* required an entity to initially measure receivables at the transaction price, in accordance with IPSAS 41, *Financial Instruments* paragraphs 57–60 and AG115–AG117. The EDs also addressed subsequent measurement of receivables by:
 - (a) Requiring entities to apply IPSAS 41 for contractual receivables (i.e., receivables that arise from contractual agreements); and
 - (b) Providing authoritative guidance for non-contractual receivables (i.e., receivables that arise from binding arrangements that are not contracts, which are outside the scope of IPSAS 41).⁹
4. A majority of ED respondents supported this proposal,¹⁰ but some respondents did not fully agree with the proposal to apply IPSAS 41 to subsequently measure non-contractual receivables, because it is:
 - (a) Unclear how non-contractual receivables would meet the financial instrument definition; and
 - (b) Difficult to apply the requirements in IPSAS 41 (such as determining the appropriate measurement to use) in practice.

Some constituents also requested additions or clarifications to existing guidance. This paper addresses key comments (summarized in [Appendix 2](#)) on this topic.

Analysis

Considering Constituent Comments in Context (see details in [Appendix 1](#))

5. The IPSASB has discussed this topic in great detail over the course of this project. Staff highlight the following in order to set the context of this analysis:
 - (a) **Receivables differ from binding arrangement assets** – An entity's right to consideration in a receivable is unconditional, except for the passage of time.

⁹ See ED 71 (paragraphs 84-85, and BC42) and ED 70 (paragraphs AG140-141 and BC62). Given that the ED 70 guidance is a duplicate of ED 71, the remainder of this paper will reference the ED 71 paragraphs, for simplicity.

¹⁰ 62% of respondents agreed with ED 71 Specific Matter for Comment (SMC) 5, which asked constituents whether they agree that receivables within the scope of the draft Standard should be subsequently measured in accordance with the requirements of IPSAS 41, and if not, how they would propose receivables be accounted for instead.

Agenda Item 3.2.6

- (b) **Contractual receivables and non-contractual receivables differ only by the type of arrangement in which they arise** – In substance, they are both unconditional (excluding the passage of time) rights to receive consideration from a resource provider. However, as the names suggest, one arises from contracts, and the other does not.
- (c) **Only the subsequent measurement of non-contractual receivables requires further assessment** – Constituent comments about applying IPSAS 41 focused on this area.

Thus, staff's analysis focuses on addressing the concerns about applying IPSAS 41 to subsequently measure non-contractual receivables.

Accounting Proposed in the Revenue EDs

6. Contractual receivables meet the definition of a financial asset. The IPSASB previously confirmed that non-contractual receivables are similar in substance to contractual receivables, except that they do not arise from contracts. This was a key driver in the IPSASB's proposal to apply IPSAS 41 by analogy to subsequently measure non-contractual receivables. Application by analogy ensures that transactions with the same substance are accounted for using consistent principles:

| Measurement | Contractual receivables (i.e., from a contract) | Non-contractual receivables (i.e., from a BA that isn't a contract) |
|-------------------|--|---|
| Initial | <ul style="list-style-type: none"> Transaction price¹¹ | <ul style="list-style-type: none"> Transaction price |
| Subsequent | <p>Based on classification of financial asset per IPSAS 41.39-44¹²:</p> <ul style="list-style-type: none"> Amortized cost, if it meets IPSAS 41.40; <u>or</u> Fair value, if it does not (either through net assets/equity or through surplus or deficit per IPSAS 41.41-44). Apply IPSAS 41 impairment model, with loss allowance equal to lifetime expected credit losses (ECL) per IPSAS 41.87. | <p>Based on classification of financial asset per IPSAS 41.39-44:</p> <ul style="list-style-type: none"> Amortized cost, if it meets IPSAS 41.40; <u>or</u> Fair value, if it does not, through surplus or deficit. Apply IPSAS 41 impairment model, with loss allowance equal to lifetime expected credit losses (ECL) per IPSAS 41.87. |

¹¹ IPSAS 41.57 requires financial assets (such as contractual receivables) to be recognized at fair value, adjusted for directly attributable transaction costs. The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price. See IPSAS 41.AG117 for additional guidance and considerations when the fair value and transaction price differ.

¹² IPSAS 41 requires an entity to consider its management model for, and the contractual cash flow characteristics of, its financial asset. Staff's view is that generally, an entity's contractual receivables would be classified and measured at amortized cost, as the entity's management model is likely to hold financial assets to collect cash flows (consideration owed in the revenue arrangement) and not to sell financial assets, and the cash flows are solely payments of the principal and any interest outstanding. This is consistent with views expressed by CP respondents (summarized in [March 2018, Agenda Item 12.2.4](#)).

Analysis of Constituent Comments

7. Staff reviewed key comments made by constituents that did not fully agree with the proposed subsequent measurement accounting for non-contractual receivables ([Appendix 2](#)), and noted:
- (a) **No substantial arguments against the proposed accounting principles** – The IPSASB previously concluded that there are no public sector specific reasons that warrant a different accounting treatment for the subsequent measurement of non-contractual receivables versus contractual receivables. Overall, none of the constituent comments challenged this conclusion;
 - (b) **Additional non-authoritative guidance would be useful** – Additional guidance (as proposed in [Appendix 2](#)) would help users understand what non-contractual receivables are (and from what arrangements they may arise), why (and how) the Board proposes to apply IPSAS 41 by analogy¹³, and when (and how) to measure them at amortized cost;
 - (c) **Basis for Conclusions should better emphasize why consistency in principle is appropriate and necessary, from a public sector interest perspective** – As previously noted, transactions with the same substance should be accounted for consistently (i.e., with the same set of accounting principles). Consistency in accounting is necessary from a stronger public financial management perspective; and
 - (d) **Amendments to Other IPSAS should be revisited** – The principles proposed in the draft Revenue IPSAS are appropriate. However, staff will revisit the IPSAS 41 scoping paragraph to ensure the relationship with the proposed revenue IPSAS is more clearly articulated.
8. Thus, staff propose to retain the accounting principles proposed in the EDs, and:
- (a) Relocate authoritative guidance on non-contractual receivables in the proposed IPSAS, to better communicate that this guidance would apply to receivables from *any* revenue transaction arising outside of a contract;
 - (b) Add additional non-authoritative guidance to address the points in paragraphs 7(b)-7(c); and
 - (c) Consider whether to amend scope guidance in IPSAS 41, for clarity, at a later date.

Decision Required

9. Does the IPSASB agree with the staff recommendations?

¹³ An example of additional guidance to clarify how an entity would apply IPSAS 41 to subsequent measurement of non-contractual receivables by analogy is that the entity should consider “*expected cash flows in the binding arrangement*” (in lieu of “*contractual cash flows*”).

Appendix 1 – Considering Constituent Comments in Context

Past Discussions on the Accounting for Non-Contractual Receivables

1. The current suite of IPSAS lacks guidance for the subsequent measurement and derecognition of non-contractual receivables. The IPSASB proposed preliminary views in the 2017 [Consultation Paper \(CP\), Accounting for Revenue and Non-Exchange Expenses](#), and reviewed constituent responses in [2018](#) and [2019](#). The Board noted that:
 - (a) The proposed initial measurement of non-contractual receivables at fair value (specifically, transaction price) received strong support; and
 - (b) The proposed subsequent measurement of non-contractual receivables at fair value was **not** well supported and was considered the least useful approach. Rather, subsequent measurement of receivables is generally expected to be at amortized cost (and would likely yield the same results, with minimal differences, as those measured at cost because most receivables are collected within one year). No public sector specific reasons were identified to warrant a different accounting treatment for subsequent measurement of non-contractual receivables versus subsequent measurement of contractual receivables.
2. This resulted in the proposed accounting in the EDs (summarized in the Background section).

Parameters of Staff's Analysis

3. Staff highlight the following points to set the context of constituent comments and this analysis:
 - (a) **Receivables differ from binding arrangement assets** – The key distinction is that an entity's right to consideration in a binding arrangement asset¹⁴ is conditional on something other than the passage of time (such as the satisfaction of a compliance obligation). An entity's right to consideration in a receivable is "unconditional" as only the passage of time is required before payment of such consideration is due. This difference was outlined in ED 70 paragraphs 106-107 (and ED 71 paragraphs 123-124), consistent with IFRS 15 paragraphs 107-108;
 - (b) **Contractual receivables and non-contractual receivables differ only by the type of arrangement in which they arise** – In substance, they are both unconditional (excluding the passage of time) rights to receive consideration from a resource provider. However, as the names suggest, one arises from contracts, and the other does not:
 - (i) Contractual – arise from contracts. E.g., billed receivable for goods transferred to the resource provider in a contract;
 - (ii) Non-contractual – arise outside of contracts, from a binding arrangement that is not a contract, or an arrangement that is not a binding arrangement. E.g., statutory receivables (such as taxes, fines, or penalties), non-statutory receivables (such as bequests), where the counterparty is identifiable and the receivable amount is determinable; and
 - (c) **Only the subsequent measurement of non-contractual receivables requires further assessment** – There were no significant comments or concerns about applying IPSAS 41 to the initial and subsequent measurement of contractual receivables, or the initial measurement of non-contractual receivables.

¹⁴ A binding arrangement asset is defined in ED 70 as "an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary when that right is conditioned on something other than the passage of time (for example, the entity's future performance)."

Appendix 2 – Detailed Analysis of Constituent Comments

The following table summarizes key comments from constituents that partially agreed, or disagreed, with the proposed accounting for subsequent measurement of non-contractual receivables. Staff provide its analysis, and proposed changes (in **green**), below.

| Comment | Additional Details | Staff Analysis |
|---|--|--|
| Application of IPSAS 41 is not appropriate for non-contractual receivables | | |
| <i>It is not in scope of IPSAS 41</i> | Non-contractual receivables are not from contracts, so they wouldn't meet the IPSAS 28 definition of a financial instrument: "Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity." | Clarify the IPSASB's intention in non-authoritative guidance. Staff agree that non-contractual receivables do not strictly meet the definition of a financial instrument, as they don't arise from contracts. Additional guidance can clarify that the IPSASB proposed to apply IPSAS 41 guidance <u>by analogy</u> because, while the arrangement from which it arises differs, the substance of non-contractual receivables and contractual receivables is consistent and are exposed to the same risks. |
| <i>It is unclear how to determine the applicable measurement</i> | It is unclear how an entity can determine when to apply amortized cost rather than fair value, because: (a) Entities do not typically have a management model nor contractual cash flows without a contract (see classification bases in IPSAS 41.39); and (b) It is difficult to determine whether the cash flow characteristics are solely payments of principal or interest (SPPI). | Clarify the IPSASB's intention in non-authoritative guidance. The IPSASB previously confirmed that an entity's non-contractual receivables would in substance meet the definition of a financial asset per IPSAS 28, without arising from a contract. Thus, the IPSASB proposed to apply IPSAS 41 guidance <u>by analogy</u> . Additional non-authoritative guidance can clarify that: 1) ED 71.84(b) was intended to reflect that public sector entities typically hold such receivables to collect cash flows related to its revenue transactions over the period identified in the revenue arrangement, rather than to sell and trade these receivables to manage overall return of the portfolio of receivables, and thus would likely meet the bases to measure at amortized cost. IPSAS 41 AG48-AG88 provides sufficient guidance on this assessment. ED 71.85 directs users to use fair value through surplus or deficit if the bases for amortized cost are not met. 2) Cash flows from non-contractual receivables represent the entity's right to consideration from the resource provider, and are expected to meet the SPPI test. The terms of the revenue arrangement (legislature, binding arrangement, etc.) would specify whether any interest may be incurred on this principal consideration. |
| <i>Amortized cost is not appropriate</i> | Amortized cost would not be appropriate because: | No changes proposed. In response to comments: |

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| Comment | Additional Details | Staff Analysis |
|---|---|---|
| | <p>(a) The notion that there are “financing” elements in revenue transactions (like taxes, appropriations and fines) doesn’t seem appropriate;</p> <p>(b) Use cost approach as it is simpler; and</p> <p>(c) Subsequent measurement of a binding arrangement asset should instead be based on the satisfaction of obligations, revenue constraints, etc., similar to contract assets in IFRS 15.</p> | <p>(a) The nature of non-contractual receivables is not primarily to provide financing to the resource provider. However, the measurement model should appropriate reflect any time value of money that may arise from delays in exercising the entity’s right to consideration (by collecting consideration due from the resource provider). In such cases, the receivable may in substance be akin to financing arrangements. This approach in thinking is similar to the concept of significant financing components in ED 70 (where adjustments to consideration may be necessary for the effects of time value of money for any promised consideration).</p> <p>(b) Using a different model would result in inconsistent accounting for transactions with similar substance. Measurement of receivables in revenue arrangements at amortized cost would likely yield the same results as those measured at cost, with minimal differences, as most receivables are collected within a year.</p> <p>(c) N/A – Non-contractual receivables differ from binding arrangement assets. Proposed accounting for binding arrangement assets is consistent with contract assets in IFRS 15.</p> |
| <i>Amortized cost is not applicable for statutory receivables</i> | <p>Amortized cost does not seem appropriate for statutory receivables because:</p> <p>(a) An entity should not have to first consider if amortized cost criteria met, as these receivables would likely not meet the bases more often than other receivables. If met, it’s difficult to apply the credit risk analysis for impairment;</p> <p>(b) IPSAS 41.81 refers to “reasonable and supportable information available without undue cost or effort”. Absence of guidance on making this call incurs significant compliance costs for little to no benefit (for decision making and accountability); and</p> <p>(c) Fair value should be used instead.</p> | <p>No changes proposed.</p> <p>In response to comments:</p> <p>(a) See analysis above on assessing whether the two bases for amortized cost are met. See analysis below on application.</p> <p>(b) See analysis below on application.</p> <p>(c) A large majority of CP respondents did not agree with the IPSASB’s original proposal to subsequently measure at fair value, and it was considered the least useful approach. The IPSASB considered these comments when it proposed to use amortized cost (and only use fair value if the bases for amortized cost are not met) in the EDs. ED responses did not provide rationale to contradict this IPSASB decision.</p> |
| <i>Difficulty in practice</i> | <p>It may be difficult to apply IPSAS 41 to non-exchange type revenue transactions because:</p> <p>(a) IPSAS 41’s impairment model is not yet tested (IFRS 9 still new for private sector</p> | <p>Clarify the IPSASB’s intention in non-authoritative guidance.</p> <p>Staff acknowledge that:</p> <ul style="list-style-type: none"> The availability of certain information may pose some difficulties in applying amortized cost; and |

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| Comment | Additional Details | Staff Analysis |
|---|---|---|
| | <p>and IPSAS 41 not yet effective for public sector), may be difficult to apply;</p> <p>(b) Consider materiality. It may be practically difficult to estimate expected credit losses for ECL to determine the impairment of certain non-exchange revenues. Complex actuarial modeling is onerous with marginal benefit, and not available to every entity;</p> <p>(c) Detailed information about counterparties and their credit risks are not necessarily available given the nature of non-contractual receivables. It is onerous to determine unbiased and probability-weighted amounts of impairment using range of possible outcomes, considering time value of money, and using past present and forecast data; and</p> <p>(d) Use a more simplified approach to avoid undue complexity and considerable reliance on estimates.</p> | <ul style="list-style-type: none"> The simplified approach for receivables in IPSAS 41.97-89 (to measure loss allowance at an amount equal to lifetime, instead of 12-month, expected credit losses) may not be sufficient to ease the burden. <p>However:</p> <ul style="list-style-type: none"> Non-contractual receivables, by the nature of the revenue arrangements from which they arise, generally have shorter “maturity” periods (i.e., when consideration become due from the resource provider), similar to short-term receivables, and the required estimates would not span a long uncertain time period; Considering time value of money and expected credit losses are necessary to appropriately reflect the economic substance of receivables (whether contractual or non-contractual); The substance of contractual receivables and non-contractual receivables are consistent despite arising from different types of arrangements. Both are exposed to the same risks from transacting with a resource provider. Consistency in accounting principles is necessary from a public financial management perspective; and Providing a simplified approach or practical expedient for non-contractual receivables (for example, to not require an ECL calculation for the impairment of receivables with “maturity” periods under one year) would result in an inconsistency in accounting principles. <p>Staff propose that the IPSASB incorporate additional guidance to highlight why it is necessary for the proposed accounting of non-contractual receivables to be consistent with contractual receivables, and highlight some key discussion points from the CP paragraphs 7.30-7.34. Implementation Guidance may also help entities understand how to identify inputs for their impairment calculation (similar to “bad debts” calculations).</p> |
| <i>Jurisdictional differences</i> | One respondent noted that it is common practice in their jurisdiction to use fair value instead of amortized cost. | <p>No changes proposed.</p> <p>See analysis above.</p> |
| Application of IPSAS 41 is appropriate for non-contractual receivables | | |
| <i>Apply to all receivables</i> | All IPSAS 23 receivable are financial instruments. Amend IPSAS 41 to apply to all receivables. | <p>No changes proposed.</p> <p>See analysis above. IPSAS 41, which is aligned with IFRS 9, <i>Financial Instruments</i>, applies to transactions arising from contracts.</p> |

| Comment | Additional Details | Staff Analysis |
|--|---|--|
| Other comments (that do not challenge proposed accounting principles) | | |
| <i>Additional guidance</i> | Provide additional guidance on: (a) How to determine if amortized cost should be applied, and why it is appropriate to do so by analogy with contractual receivables; (b) How to apply amortized cost requirements; (c) Which revenue arrangements may have non-contractual receivables; and (d) What fair value is used (if not amortized cost). | Clarify the IPSASB's intention in non-authoritative guidance. See analysis and proposals above. Staff also propose that non-authoritative guidance clarifies that non-contractual receivables may arise from any revenue arrangement that is not a contract (i.e., binding arrangements that are not contracts, or from arrangements that are not binding arrangements). |
| <i>Revise scope</i> | Revise scope paragraphs (ED 71 paragraph 3(g) and ED 70 paragraph 3(d)), because it currently excludes receivables. Revise the scope section in ED 71 (to be similar to the IFRS 15 vs. IFRS 9 distinction), which would eliminate the need for paragraph 84(a). | No changes proposed in the scope guidance of the proposed Revenue IPSAS. Reconsider Amendments to Other IPSAS. Existing guidance on the subsequent measurement of receivables requires the entity to refer to and apply IPSAS 41 (if contractual, or by analogy if non-contractual). Thus, there is no scope issue. Furthermore, the scope exclusions in EDs 70-71 (and brought into the proposed IPSAS) related to the IPSAS 41 as the same as the scope exclusion in IFRS 15.5(c) related to IFRS 9. However, staff will reconsider the wording in IPSAS 41 (scope paragraphs 2-3 and AG6) for better consistency when it revises the Amendments to Other IPSAS. |
| <i>Clarify existing guidance</i> | Consider clarifying ED 71 paragraph 124, as its too broad (some receivables are non-contractual). | Add reference to subsequent measurement guidance. ED 71.124 is consistent with ED 70.107 (and IFRS 15.108) and is intended to provide presentation guidance for both contractual and non-contractual receivables. Staff note that a reference to the subsequent measurement of receivables guidance in the presentation paragraphs will help users of the final IPSAS understand why receivables are accounted for in accordance with IPSAS 41. |

Disclosure Requirements for Revenue Transactions

Question

1. Does the IPSASB agree to revise the presentation and order of disclosure guidance, and retain existing disclosure requirements with the proposed changes?

Recommendations

2. Staff recommend the IPSASB agree to:
 - (a) Revise the presentation and order of disclosure guidance, as presented in paragraph 8 and [Appendix 1](#), to better distinguish which disclosure guidance applies to which specific types of revenue transactions; and
 - (b) Retain existing disclosure requirements, with changes proposed in paragraph 12.

Background

3. Exposure Draft (ED) 70, *Revenue with Performance Obligations* included all IFRS 15, *Revenue from Contracts with Customers* disclosure requirements and added a public sector specific disclosure for compelled transactions. These disclosures were included in ED 71 for consistency across the proposed revenue standards.
4. The extent of disclosure requirements was one of four overarching themes identified by staff in their review of ED responses.¹⁵ The majority of respondents fully or partially agreed with the proposed disclosures, on the basis that there is no substantial public sector reason to deviate from IFRS 15 alignment for transactions with the same substance. However, some constituents identified specific concerns primarily related to the application in the public sector, and requested:
 - (a) Less disclosures, as the proposed disclosures in the EDs was considered too extensive and “burdensome” as they were derived from the private sector, to improve the relevancy and appropriateness of disclosure requirements for the transactions in the public sector; and focus only on disclosures that provide value to financial statement users;
 - (b) Additional disclosures for specific unique public sector transactions; or
 - (c) Revisions to select proposed disclosures for emphasis, consistency or clarification purposes.
5. Based on its initial discussions in December 2020, the IPSASB decided to address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach, focusing on the nature of the transactions and their risks. This is consistent with the CAG members’ advice, which supported a principle-based approach, focusing on relevancy and risk. CAG members also supported starting with IFRS 15 disclosure requirements for commercial type transactions and encouraged the IPSASB to consider requiring less requirements for other types of transactions.
6. The IPSASB instructed staff to reassess disclosure requirements based on the nature and risks of the various types of revenue prominent in the public sector.

¹⁵ Staff presented its preliminary analysis and summary of overarching themes in December 2020 [Agenda Item 8](#). ED 70 Specific Matters for Comment (SMC) 4 and ED 71 SMC 6 asked respondents to provide comments on the proposed disclosure requirements.

Analysis

Framing Staff's Analysis

7. The proposed revenue guidance has changed substantially since December 2020. Several key decisions (since the IPSASB began its review of ED responses) shift the landscape in which staff will assess disclosure requirements. Specifically, the IPSASB have confirmed that:
 - (a) Revenue guidance should be presented in a single IPSAS, and its content and structure should appropriately reflect the prevalence various revenue types in the public sector;
 - (b) Exchange-type transactions represent a small subset of revenue in the public sector;
 - (c) The existence of a binding arrangement, rather than the existence of a performance obligation, determines the applicable accounting model (and accounting principles); and
 - (d) The fundamental accounting principles for ED 70 'performance obligations' and ED 71 'present obligations' in a binding arrangement are consistent.
8. As a result, staff first merged authoritative guidance from EDs 70 and 71 into a single set of disclosure requirements for further analysis. Staff also added section titles and reordered guidance to first present general requirements (i.e., for *all* revenues), then disclosures for revenue *without* binding arrangements, followed by disclosures for revenue *with* binding arrangements (summarized, for reference only, in [Appendix 1](#)). This collated set of guidance:
 - (a) Is intended to be the "starting point" of staff's analysis, to more clearly assess whether the proposed disclosures are consistent with the accounting principles, and is subject to further changes based on analysis of constituent comments. Staff and the Drafting Group will process changes arising from the IPSASB's discussion on this paper; and
 - (b) Reduces the overall disclosure requirements by eliminating duplication.

Assessment Considerations

9. **The key purpose of disclosures is to provide financial information that supports accountability and is useful for decision-making purposes**¹⁶ (i.e., help entities communicate key information to stakeholders, thereby enhancing transparency and accountability). For revenue:
 - (a) An entity should be required to disclose sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of the entity's revenue; and
 - (b) Disclosure requirements should prompt entities to disclose (or consider disclosing) information about its revenue transactions that is material.¹⁷ This means that, similar to other IPSAS, *not all* disclosure requirements in the proposed Revenue IPSAS may be applicable for an entity in its preparation of financial statement note disclosures, and in practice, fewer than the full range of possible disclosures may be made by each entity.
10. **Under a principle-based approach, disclosures should align with the accounting principles set by the IPSASB within the respective accounting models.** IPSASB discussions and decisions to date have changed the output of the Revenue project, particularly the shift in focus to the existence

¹⁶ Summarized in the IPSASB Conceptual Framework, paragraph 2.27.

¹⁷ The materiality consideration was included in ED 70 paragraph 112 and duplicated in ED 71 paragraph 130.

of binding arrangements. Thus, disclosures should provide relevant, useful, and appropriate information to financial statement users for revenue transactions in each model:

- (a) *Without binding arrangements* – Transactions without binding arrangements, which are non-exchange in nature, are expected to comprise a majority of public sector revenues. IPSAS 23 disclosures (all brought into ED 71) remain relevant, useful, and appropriate.
- (b) *With binding arrangements* – The IPSASB confirmed that all transactions arising from binding arrangements are accounted for under the same model, because the enforceability of binding arrangements drives the accounting principles to capture the substance and risks of revenue with binding arrangements. To maintain a principle-based approach, all transactions accounted for under the binding arrangement model should be subject to the same set of disclosure requirements. Staff confirmed that proposed disclosures (based on IFRS 15) are consistent with the accounting model for revenue with binding arrangements, and remain appropriate:
 - (i) The IASB's Basis for Conclusions explained that one of its goals for IFRS 15 was to improve disclosure requirements to provide users with more useful information. These disclosures were intended to help financial statement users understand the entity's revenues, and judgments and estimates related to those revenues.¹⁸ The IFRS 15 accounting model included principles and guidance that may be applied for any revenue transaction, with consistent disclosure requirements¹⁹ to provide information about these revenues and related judgments and estimates, but need not be applied if not relevant for an entity's specific transaction.
 - (ii) The IPSASB's proposed accounting model for revenue with binding arrangements:
 - a. Has concepts and principles aligned with IFRS 15, with adaptations for the public sector. Thus, disclosures about the entity's revenues, judgments, and estimates, should also align; and
 - b. Also includes principles and guidance that may be applied for any revenue transaction, and the proposed disclosures (adapted for public sector) should also provide information about these revenues and related judgments and estimates, but need not be applied if not relevant for an entity's specific transaction.
 - (iii) Thus, the proposed disclosures aligned with IFRS 15 (1) remain relevant, useful, and appropriate for exchange-type transactions in the public sector, and (2) are also relevant, useful, and appropriate for non-exchange type transactions that arise from binding arrangements. Any disclosure requirements that are not applicable to an entity's specific revenue transaction would not result in any disclosures.

Staff applied this principled approach as it assessed each constituent comment in [Appendix 2](#).

11. **Requests to remove or add specific disclosures should be considered objectively.** Staff considered the following for each request:

¹⁸ IFRS 15 BC327-329.

¹⁹ These IFRS 15 disclosures relate to disaggregation of revenue, contract balances, performance obligations (including the satisfaction), allocation of transaction price, potential assets from the costs to obtain or fulfill, significant judgments, and practical expedients.

- (a) *Relevancy*²⁰: Is the disclosure requirement relevant for public sector transactions?
- (b) *Usefulness*: Does it provide useful information to financial statement users?
- (c) *Appropriateness*: Does the disclosure appropriately align with the accounting principles, thereby communicating the risks associated with that transaction?

For new disclosures requested, staff also considered if it is prevalent in many jurisdictions, or can be grouped with existing disclosure requirements.

Assessment Results

12. Based on its analysis, staff is of the view that the Board's progress to date and the proposed changes below sufficiently address constituent comments:
- (a) **Retain all previously proposed disclosures, in the revised presentation and order proposed by staff;**
 - (b) **Work with the Drafting Group to revise disclosures** related to the succinctness of guidance on implicit price concessions and timing of revenue recognition, to more effectively present guidance brought in from ED 71.
 - (c) **Clarify through Basis for Conclusions that:**
 - (i) The IPSASB considered feedback from respondents about the volume of disclosures, and noted that its decisions to date, particularly to present revenue guidance in a single standard, have reduced the overall volume of disclosures and resulted in a more succinct and clear set of disclosures;
 - (ii) IPSASB guidance does not prohibit entities from disclosing any information not formally required in IPSAS. An entity can choose to provide additional disclosures at their own discretion (e.g., if it considers the information meets the overall objective of disclosure requirements and provides relevant, useful, and appropriate information for decision-making purposes); and
 - (iii) The IPSASB agreed that disclosures should be based on the respective accounting models and should provide information useful in understanding the nature, amount, timing, and uncertainty of the entity's revenue for material revenue transactions. Based on the analysis, the disclosures proposed in EDs 70-71 remain appropriate for the respective revenue transactions because they meet the disclosure objective and are consistent with the accounting principles under the applicable models.

Decision Required

13. Does the IPSASB agree with the staff recommendations?

²⁰ For this analysis, a disclosure is **relevant** if it provides information for revenue transactions that may occur in the public sector. An entity must then determine whether that disclosure is relevant for their own transactions, and make a difference in achieving the objectives of financial reporting, in applying the proposed IPSAS.

Appendix 1 – Summary of Revenue Disclosure Requirements

This table summarizes the original sources and staff's proposed reorder of disclosure requirements proposed for revenue transactions.

| Disclosure Requirement | Paragraph Source | | | |
|--|------------------|----------|---------|-----------|
| | IPSAS 23 | ED 71 | IFRS 15 | ED 70 |
| Core Text | | | | |
| For <u>all</u> revenues | | | | |
| Objective of disclosures | - | 126-127 | 110 | 109 |
| Level of detail, emphasis, and aggregation | - | 128 | 111 | 110 |
| Major classes of, and any assets / liabilities in respect to, revenue transactions | 106 | 131 | - | - |
| Accounting policies, measurement information by major classes | 107 | 132 | - | - |
| For revenue <u>without</u> binding arrangements | | | | |
| Taxes | 113 | 136 | - | - |
| Advance receipts | 112 | 135 | - | - |
| Collectability | - | 137 | - | - |
| Gifts, donations, bequests | 114 | 138 | - | - |
| Services in kind | 108, 110, 115 | 133, 139 | - | - |
| For revenue <u>with</u> binding arrangements | | | | |
| Sources of revenue and impairment | - | 140 | 113 | 113 |
| Liability | - | 134 | - | - |
| Disaggregated revenue | - | 141-142 | 114-115 | 114-115 |
| Binding arrangement balances | - | 143-145 | 116-118 | 116-118 |
| Compliance obligations | - | 146-147 | 119 | 119-120 |
| Allocation of transaction consideration | - | 148-150 | 120-122 | 121-123 |
| Significant judgments | - | 151-154 | 123-126 | 124-127 |
| Assets from costs to obtain or fulfill a binding arrangement | - | - | 127-128 | 128-129 |
| Practical expedients | - | - | 129 | 130 |
| Application Guidance | | | | |
| Interaction with requirements in other Standards* | - | 129 | 112 | 111 |
| Materiality consideration* | 109 | 130 | - | 112 |
| Disaggregated revenue | - | AG55-57 | B87-89 | AG137-139 |

* Staff propose to move these two paragraphs from core text into AGs because they are requirements on how an entity applies other disclosures requirements.

Appendix 2 – Summary of Analysis of Constituent Comments

The following table summarizes staff's analysis of key comments from constituents that partially agreed, or disagreed, with the proposed disclosure requirements in ED 70 and ED 71. Staff explain how the comment has been addressed (blue) or propose changes (green).

| Comment | Staff Analysis |
|--|--|
| Reduce disclosure requirements | |
| <i>To remove irrelevant disclosures, and better reflect the public sector</i> | <p>Addressed by IPSASB decisions and restructure of disclosure guidance.</p> <p>See rationale in paragraph 10 on how proposed disclosures in EDs 70-71 provide useful, appropriate, and relevant information about the entity's revenue transactions.</p> <p>IFRS 15 disclosures are appropriate to communicate the nature, amount, timing, and uncertainty for exchange-type revenue transactions, which occur in the public sector in small volumes. Similarly, IFRS 15 disclosures also help an entity communicate the nature, amount, timing, and uncertainty for non-exchange-type revenue transactions arising from binding arrangements, which are expected to be a minority of public sector revenues.</p> <p>The revised presentation of disclosure guidance clarifies which disclosures apply to specific public sector transactions.</p> |
| <i>To reduce complexity and burden on resources</i> | |
| <i>To revert to existing disclosure requirements (IPSAS 23 only)</i> | <p>No change – The IPSASB decided to align with IFRS 15 only where appropriate.</p> <ul style="list-style-type: none"> - Disclosures for revenue <u>without</u> binding arrangements are based on IPSAS 23. - Disclosures for revenue <u>with</u> binding arrangements are based on IFRS 15. |
| <i>To reduce amount of excessive detail, like the distinction between revenue with performance obligations vs. present obligations</i> | <p>Addressed by IPSASB decisions and restructure of disclosure guidance.</p> <p>See staff analysis above about relevance, usefulness, and appropriateness which would not support reduction in disclosure requirements. The distinction between revenue with performance obligations vs. present obligations has also been removed.</p> |
| <i>To ensure consistency (generally between disclosure requirements in the two EDs) and between specified paragraphs</i> | <p>a) Addressed by IPSASB decisions and restructure of disclosure guidance. See staff analysis above.</p> <p>b) No change – Constituents questioned if ED 71.128 may be inconsistent with 71.131-132. No inconsistency noted between ED 71 paragraphs 131-132 (which state the minimum disclosure requirements) and 128 (which encourage the entity to consider whether to provide greater detail in order to meet the disclosure objectives).</p> |
| <i>To remove specific disclosures identified by constituents</i> | <p>No change – Some constituents requested the removal of specific disclosure paragraphs. Staff considered each request and noted:</p> <ul style="list-style-type: none"> - As summarized in paragraph 10, the proposed disclosures in EDs 70-71 provide useful, appropriate, and relevant information about the entity's revenue transactions, as they are consistent with, and a consequence of, the revenue accounting models. |

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| Comment | Staff Analysis |
|--|---|
| | <ul style="list-style-type: none"> - Similar to other IPSAS, not all disclosure requirements in the proposed Revenue IPSAS may be applicable for an entity in its preparation of financial statement note disclosures, and in practice, fewer than the full range of possible disclosures may be made by each entity. |
| <i>To eliminate potential duplications</i> | <p>A few constituents identified specific paragraphs where there is duplication of disclosure requirements within each ED (i.e., that would not be eliminated through staff's merging exercise presented in paragraph 8. Staff assessed each request and propose to:</p> <p>Work with Drafting Group to refine the following disclosures:</p> <ul style="list-style-type: none"> a) Some duplication noted between paragraph 137(b)-(c) and 147(a)-(b). Staff and Drafting Group can consider how, which relate to disclosures about revenue from transactions with implicit price concessions, to eliminate duplication in clear concise manner. b) While there is no duplication noted, these paragraphs refer to different elements for compliance obligations, and recognition of revenue related to compliance obligations. Staff and Drafting Group can consider how to present disclosures in more succinct manner. |
| Add to disclosure requirements | |
| <i>To disclose BAs with multiple purposes</i> | <p>Include a Basis for Conclusion about adding disclosures at entity's own discretion – IPSASB guidance does not prohibit entities from disclosing any information not formally required in its IPSAS. An entity can choose to provide any additional disclosures at their own discretion (e.g., if the entity considers the information meets the overall objective of disclosure requirements and provides relevant, useful, and appropriate information for decision-making purposes). A Basis for Conclusion may help clarify.</p> |
| <i>To require specified disclosures identified by constituents</i> | <p>No change – Staff assessed each request and noted:</p> <ul style="list-style-type: none"> - Some of the additional disclosures requested are not necessarily prevalent in all jurisdictions. As noted above, a BC may help clarify that entities can choose to include any disclosures in addition to the IPSAS requirements at their own discretion; and - Other requests are covered by existing disclosure requirements or are addressed by IPSASB decisions to date. |
| <i>To allow entities to optionally disclose other information</i> | <p>No change – IPSAS do not typically include such generic disclosure guidance, as entities can choose to include any disclosures in addition to the IPSAS requirements at their own discretion. As noted above, a BC may help clarify that entities can choose to include any disclosures in addition to the IPSAS requirements at their own discretion.</p> |
| Revise disclosure requirements | |
| <i>To emphasize that entities should apply judgment and consider materiality</i> | <p>No change – proposed guidance includes an explicit reference to IPSAS 1 guidance on materiality (based on ED 70.112 and ED 71.130). The emphasis on the materiality consideration is in the "general" disclosure introduction and indicates that it applies to all disclosures in the proposed Standard.</p> |

Agenda Item 3.2.7

| Comment | Staff Analysis |
|---|--|
| <i>To clarify ED 71.127(b) on significant judgments</i> | No change – this paragraph is an introductory paragraph, and further guidance is provided in the core text guidance. |
| <i>To clearly identify applicable disclosures, broaden applicability where appropriate, align with accounting models, or split by required vs. encouraged disclosures</i> | Addressed by IPSASB decisions and restructure of disclosure guidance. See above. Furthermore, staff note that grouping disclosures by type of revenue would be more useful than by required vs. encouraged disclosures. |
| <i>To better communicate public sector focus and standardize wording</i> | a) Addressed – Staff have made revisions to the drafting and will work further with the Drafting Group. b) The Basis for Conclusion that will arise from this agenda paper will help explain how disclosure requirements originally from IFRS 15 can also be relevant for the public sector. |
| <i>To clarify application of a specific requirement</i> | Addressed – Staff assessed the request and noted that the proposed restructure would address the comment. |
| <i>To require, rather than encourage, qualitative disclosure ED 71.133</i> | No change – This paragraph is based on IPSAS 23 paragraph 108. The IPSASB has not received substantial comments or concerns which warrant changing this to a required (rather than encouraged) disclosure. |
| <i>To replace certain disclosures with reconciliation requirements</i> | No change – existing guidance refers to inputs to reconciling opening and closing balances. |
| <i>To separately disclose amortization costs</i> | No change – the IPSAS suite of standards require disclosure of amortization and impairment losses together, and only require separation for year-over-year reconciliations. |
| <i>To reword specific disclosures</i> | No change – One constituent noted that the word “shall” in some disclosures should be changed. Staff note that the word is used in order to remain consistent with IFRS 15. Maintaining consistent terminology would be in line with the IPSASB’s choice to remain consistent with IFRS 15 where appropriate. |
| <i>To resolve possible inconsistencies</i> | No change – Staff assessed each request and either confirmed that there is no inconsistency, or noted that the constituent comment is addressed by IPSASB decisions and restructure of disclosure guidance. |
| <i>To isolate disclosure requirements as a separate IPSAS, similar to Financial Instruments approach</i> | No change – The length of the combined set of disclosure requirements is not substantial, and would not warrant a separate standard similar to IPSAS 28 or IPSAS 30. |

Accounting for Revenue from Capital Transfers

Question

1. Does the IPSASB agree that the proposed accounting principles are appropriate to account for capital transfers?

Recommendations

2. Staff recommend:
 - (a) Clarifying that the accounting principles for revenue arising from binding arrangements can be applied to capital transfers; and
 - (b) Add implementation guidance or illustrative examples to show how accounting principles apply to capital transfer transactions.

Background

3. Capital transfers were defined in Exposure Draft (ED) 71, *Revenue without Performance Obligations*, as, “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-financial asset that will be controlled by the transfer recipient.” The responses to ED 71 indicated that constituents were largely in support of the proposals regarding capital transfers.
4. Since the publication of ED 71, the IPSASB has made a number of decisions on revenue, including:
 - (a) The guidance in the draft IPSAS based on ED 70, *Revenue with Performance Obligations*, and ED 71 be reordered to require the entity to consider up front whether the transaction arises without or with a binding arrangement (September 2021);
 - (b) The term ‘compliance obligation’ should be used for the single concept of an entity’s legally binding obligation arising from a revenue transaction with a binding arrangement (March 2022);
 - (c) An entity recognizes a liability (deferred revenue) in its binding arrangement when it has received resources prior to fulfilling its compliance obligation(s), and the enforcement terms of the binding arrangement required the entity to transfer resources to another party if it does not fulfill its compliance obligations. (September 2021);
 - (d) Revenue guidance should be presented in a single IPSAS (October 2021); and
 - (e) The proposed guidance should be incorporated in the Revenue IPSAS to clarify how an entity should distinguish its individual obligations in a binding arrangement, with refinements (December 2021). These refinements would need to incorporate the impact of the multiple past events and units of account from the proposed definition of a liability in ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in the Financial Statements*.
5. The above decisions led to the proposal of a revised revenue accounting model based which distinguishes between revenue with or without a binding arrangement. The IPSASB instructed staff to consider the principles from the revised model in the context of the capital transfers, to confirm that the related examples are appropriate, and to incorporate additional drafting if necessary. This paper addresses these considerations.

Analysis

6. Staff noted that capital transfers always arise from a binding arrangement, as the binding arrangement is the mechanism which specifies that the entity acquires or constructs a non-financial asset, and the enforceability of the binding arrangement provides the parties in the arrangement to enforce the terms and conditions of that binding arrangement.
7. The principles already decided upon in the binding arrangement model are sufficient to account for capital transfers, as these principles adequately address all recognition and measurement aspects of capital transfers, including initial recognition and measurement upon receipt of resources and subsequent recognition of revenue as the entity satisfies its compliance obligations. Therefore, staff recommend not developing new principles specifically for capital transfers, revising the draft standard to clarify that capital transfers are addressed by applying the proposed principles, and providing additional implementation guidance or illustrative examples in the draft standard. This approach is consistent with an earlier decision made by the IPSASB when developing ED 71.
8. Application of the principles from the binding arrangement model would result in the following accounting:
 - (a) The entity will need to identify the compliance obligations in the binding arrangement. In some cases, the binding arrangement could require the acquisition or construction of a non-financial asset as well as the operation of the asset. The entity applies the guidance in the binding arrangements model on identifying compliance obligations (step B)²¹ to determine if the acquisition or construction and operation of that asset are separate individual compliance obligations;
 - (b) Upon receipt of the transfer, the entity would recognize the amount as deferred revenue (a liability) as none of the compliance obligations in the binding arrangement have been satisfied and the binding arrangement imposes a consequence that results in a transfer of resources if the compliance obligations are not satisfied;
 - (c) The entity will need to allocate the transaction consideration to the individual compliance obligations based on their stand-alone value;
 - (d) Revenue is recognized as or when the entity satisfies each compliance obligation.
9. To illustrate the application of the principles from the binding arrangement model, staff included three examples in Appendix 1 of this paper. The first two examples were developed from Example 29 and 30 in ED 71, and the third example was developed for this paper.

Decision Required

10. Does the IPSASB agree with the staff recommendations?

²¹ The Drafting Group decided in Q2 2022 to revise the labelling of the 5-step revenue recognition model to avoid confusion in the flow of the guidance.

Appendix 1: Illustrative Examples of Capital Transfers

Example 1: Entire Transfer Relates to Construction of an Asset

- a) Entity A enters a binding arrangement with Entity B. The terms of the binding arrangement are as follows:
- Entity A is to receive a capital transfer of CU22 million in cash from Entity B. This CU22 million amount is based on budgeted construction costs of CU20 million plus a 10% excess for indirect overhead costs;
 - The funding is used to construct a building, but there are no terms specifying how the building is to be used after construction. The funding is to be fully paid by Entity B to Entity A at the beginning of the construction period;
 - Entity A is required to have a detailed construction plan outlining the activities to be completed in each major significant of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities. To facilitate Entity B's enforcement of the binding arrangement, the terms also require Entity A to provide detailed progress reports at each significant stage of construction; and
 - Upon completion of construction, Entity A obtains control of the building. If construction of the building is not completed within 5 years, Entity A retains control of any construction in progress, but any funds that have not been spent on direct construction costs are to be returned to Entity B.
- b) Entity A has determined in Step B of the revenue model that the construction of the building is one compliance obligation and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate proxy for measuring the satisfaction of this obligation. As the binding arrangement did not have terms which require a specific use of the building, there is no separate compliance obligation relating to the use of the building.
- c) Upon receipt of the CU22 million, Entity A recognizes cash and deferred revenue (a liability) for the full amount of CU22 million because the entity has not yet started satisfying its compliance obligation (construction of the building).
- d) As Entity A completes the construction activities in its construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. In Step C of the revenue model, this percentage is applied to the CU22 million to determine the revenue that should be recognized throughout the construction period.

Example 2: Transfer Relates to the Construction and Operation of an Asset

- a) As another example, building on the fact pattern from Example 1, the binding arrangement now states that:
- The funding amount is increased to CU30 million. The amount is based on budgeted construction costs of CU20 million, overhead costs of CU2 million, and a subsidy of CU8 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;
 - Throughout the 10-year period, Entity A is required to provide evidence to Entity B that the building has been operated as a public library. The evidence can include documentation

such as audit financial statements which provide details on the operating costs incurred by Entity A; and

- If Entity A stops operating the building as a library at any time during the 10-year period, it is required to repay the entire CU8 million as a penalty to Entity B.
- b) In this fact pattern, Entity A concludes from Step B of the revenue model that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building for a 10-year period. In Steps D and E of the model, Entity A allocated the CU30 transaction consideration to completion of the building for CU22 million and operation of the building as a library over a 10-year period for CU8 million.
- c) For the compliance obligation relating to the construction of the building, like Example 1, Entity A recognizes deferred revenue of CU22 million upon receipt of the funds. Entity A then recognizes the CU22 million over the construction period based on its construction progress as determined by the direct construction costs incurred.
- d) For the compliance obligation relating to the operation of the building as a library, Entity A has determined that this compliance obligation is satisfied as the building is being operated as a library during the 10-year period, and therefore would recognize deferred revenue upon initial receipt of the funds. After construction has been completed, Entity A recognizes CU800,000 of revenue per year as it operates the building as a public library.
- e) The CU8 million penalty is not recognized by Entity A because it is a contingent liability²² that is not a present obligation (as described in ED 81). This penalty only becomes a present obligation only once the past event (breaching the terms of the agreement by not operating the building as a library) has occurred. Entity A will need to consider if disclosure of the contingent liability is required by IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
- f) In this example, the identification of the compliance obligations and the allocation of the transaction consideration to each compliance obligation is relatively straight forward based on the terms of the binding arrangement. To appropriately identify and measure the compliance obligations in more complex scenarios, an entity will need to apply the guidance on identifying compliance obligations and measurement (steps B, D, and E in the revenue model) to the specific terms of the binding arrangement and related facts and circumstances.

Example 3: Capital Transfer with Specifications on the Type of Asset to be Built

- a) As a final example, consider the following fact pattern which builds Example 1 but with a few significant changes. The binding arrangement now states that:
 - Like Example 1, Entity A is to receive a capital transfer of CU22 million in cash from Entity B. This CU22 million amount is still based on budgeted construction costs of CU20 million plus a 10% excess for indirect overhead costs;

²² IPSAS 19.18 states, "A contingent liability is: (a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) A present obligation that arises from past events, but is not recognized because: (i) It is not probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability."

- Unlike Example 1, the binding arrangement now states that the building is to be a hospital. Implicitly, this requirement means that the building needs to be designed and constructed in a specific manner to properly facilitate the various functions of a hospital;
 - The binding arrangement states that if Entity A stops operating the building as a hospital within 30 years, it is required to pay a penalty of CU22 million to Entity B;
 - There are no other terms regarding the operation of the building; and
 - All other terms and conditions are the same as Example 1.
- b) In this fact pattern, Entity A concludes from Step B of the revenue model that the binding arrangement still consists of only one compliance obligation: construction of the building, which is now a hospital, for CU22 million. Entity A reached this conclusion because, in the context of the arrangement, the specification that the building is a hospital merely informs the nature of the asset to be built, and there are no specific terms in the binding arrangement on operation of the hospital. In addition, Entity A has concluded that the CU22 million is the amount that depicts the consideration to which it expects to be entitled in satisfying the compliance obligation of constructing the building.
- c) Entity A would recognize revenue in a similar manner as Example 1—i.e., defer the CU22 million on initial receipt, then recognize revenue as the hospital is being constructed.
- d) Similar to Example 2, the potential penalty of CU22 million is not recognized as no past event (breaching the agreement) has occurred to create a present obligation. Entity A will need to consider if disclosure of the penalty is required by IPSAS 19.
- e) Had the binding arrangement contained specific terms on the actual operations of the hospital, Entity A may conclude in its application of Step B accounting principles that there is a compliance obligation for construction of the building and another compliance obligation for operation of the building of a hospital. If this is the case, Entity A will need to consider in step E how the CU22 million should be allocated to each compliance obligation based on an estimate of their respective stand-alone considerations.

Snapshot of Guidance Source Material

Purpose

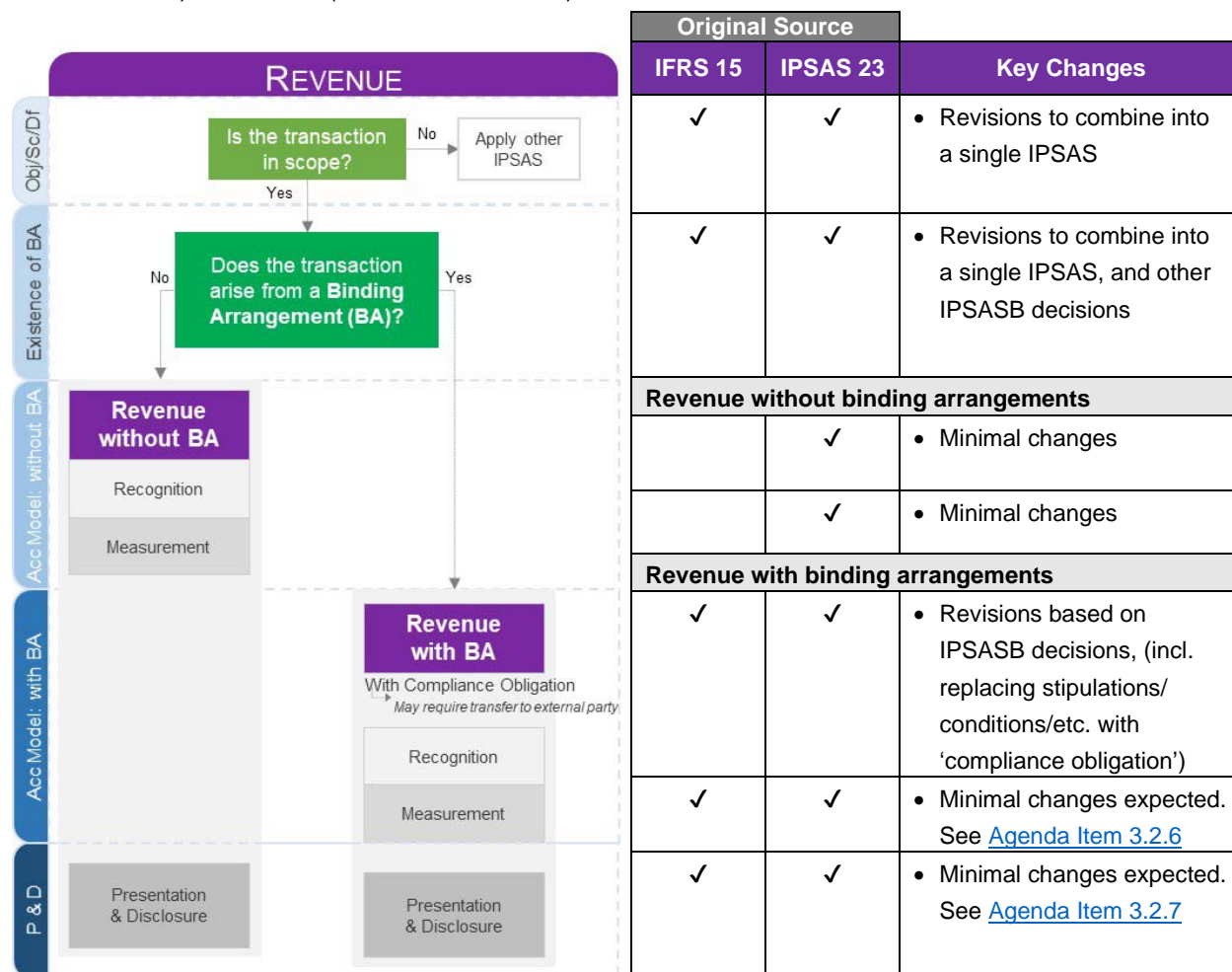
1. To provide a high-level summary of source material of core text guidance in the proposed Revenue and Transfer Expenses IPSAS.

Background

2. Staff presented a diagram in [March 2022 Agenda Item 8.2.1](#), which illustrated how IPSASB decisions have formed the accounting models, influenced decisions on source material for guidance, and overall reshaped the structures of the proposed Revenue and Transfer Expenses IPSAS.
3. Staff and the Drafting Group have put together a high-level summary to help the IPSASB better understand the original source material, per section of the core text structure, in the two IPSAS to date:
 - (a) **Revenue:** the draft IPSAS uses paragraphs from Revenue Exposure Drafts (EDs):
 - (i) ED 70, *Revenue with Performance Obligations* uses guidance from IFRS 15, *Revenue from Contracts with Customers*; and
 - (ii) ED 71, *Revenue without Performance Obligations* uses guidance from IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IFRS 15.
 - (b) **Transfer Expenses:** the draft IPSAS uses paragraphs from Transfer Expenses ED:
 - (i) ED 72, *Transfer Expenses* is intended to address a gap in current IPSAS literature on accounting for non-exchange expenses (i.e., no existing standards). Some guidance was from the revenue EDs (some of which were originally sourced from IFRS 15, such as the PSPOA model) for consistency.

Analysis

4. The Revenue project is intended to replace existing IPSAS. The IPSASB decided to present revenue guidance in a single IPSAS. The proposed IPSAS directly uses guidance from ED 70 (aligned with IFRS 15) and ED 71 (based on IPSAS 23), with revisions to reflect IPSASB decisions to date.



Transfer Expenses

5. The Transfer Expenses project is intended to address the remaining gap in current IPSAS literature. The proposed IPSAS leverages guidance from ED 72 where appropriate, with revisions to reflect IPSASB decisions to date. Additional changes are expected based on upcoming Board decisions.

| TRANSFER EXPENSES (TE) | | Original Source | |
|------------------------|---|--|--|
| | | ED 72 | Key Changes |
| Obj/Sc/Df | Is the transaction in scope? | ✓ | • Revisions based on IPSASB decisions |
| Existence of BA | Does the transaction arise from a Binding Arrangement (BA) ? | ✓ | • Revisions based on IPSASB decisions |
| Acc Model: without BA | TE without BA | Transfer expenses without binding arrangements | |
| | Recognition | ✓ | • See Agenda Items 3.2.2 and 3.2.3 . |
| | Measurement | ✓ | • Measurement of transfer rights pending IPSASB decision on overall model. |
| Acc Model: with BA | TE with BA | Transfer expenses with binding arrangements | |
| | Recognition | ✓ | • See Agenda Items 3.2.2 and 3.2.3 . |
| | Measurement | ✓ | • Measurement of transfer rights pending IPSASB decision on overall model. |
| P & D | Presentation & Disclosure | ✓ | • Pending. |

Decision Required

6. No decision required. This agenda item is for information purposes only.

Supporting Document 1 – Revenue IPSAS

The following document is a preliminary draft IPSAS for Revenue (authoritative text only). This draft IPSAS is provided without markup for easier review. A marked-up version to show revisions since March 2022 is available at a Board member's request.

The intention of this preliminary draft is to present:

- 1) The overall revised structure based on the IPSASB's decisions to date (in particular, combining guidance into a single *Revenue* IPSAS, requiring an entity to first consider whether the transaction is without or with a binding arrangement, and presenting guidance based on prominence in the public sector); and
- 2) Revisions made to revenue accounting principles based on IPSASB decisions and instructions, and subsequent Drafting Group discussions.

This preliminary draft is subject to further change, including but not limited to:

- 1) Additional or revised drafting based on IPSASB decisions on previous and current discussions;
- 2) Relocate guidance, as necessary; and
- 3) Further comments and changes based on Drafting Group discussions.

IPSASB decisions to date

| Meeting | Change ID | Decision on Principles |
|------------|----------------|--|
| Dec 2020 | 20.12-A | Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71, either as a separate standard, or a combined standard. |
| Mar 2021 | 21.03-A | [This decision has been updated for the March 2022 Decision] Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present (compliance) obligation. |
| Mar 2021 | 21.03-B | Adopt the principle that enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations. |
| Mar 2021 | 21.03-C | Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. |
| Mar 2021 | 21.03-G | [This decision has been incorporated in conjunction with December 2021 Decisions] Retain revenue from performance obligations as a separate type of revenue. Highlight that performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary. |
| March 2021 | 21.03-J | Highlight that enforceability in a binding arrangement gives rise to a liability (deferred revenue) for the transfer recipient to the extent that the terms of the arrangement are not yet satisfied. |
| Mar 2021 | 21.03-M | [This decision has been incorporated in conjunction with December 2021 Decisions] Revise existing Application Guidance to state that, where there is objective evidence that a portion of consideration relates to the transfer of distinct goods or services to the purchaser/transfer provider or a third-party beneficiary, disaggregate the transaction price and account for the component(s) relating to the transfer of distinct goods or services in accordance |

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| | | |
|----------|----------------|---|
| | | with ED 70 then use ED 71 to account for any remaining component(s). If the portion is unclear, account for the entire transaction in accordance with ED 71. |
| Apr 2021 | 21.04-A | Confirm, for revenue, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations). Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability. Incorporate executory contract accounting principles without explicitly referring to the term executory contracts. Drafting should refer to specific principles to account for binding arrangements. |
| Jun 2021 | 21.06-A | Retain the definition of a 'binding arrangement' in the Revenue standard(s), as it is conceptually consistent with the definitions elsewhere in IPSAS literature, with the following minor wording revisions: include "for the purposes of this Standard," and "enforceability through legal or equivalent means", and change "both parties" to "the parties". |
| Jun 2021 | 21.06-C | Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue. |
| Jun 2021 | 21.06-D | Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance. |
| Jun 2021 | 21.06-E | Confirm that the assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement. |
| Jun 2021 | 21.06-F | Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation'. |
| Jun 2021 | 21.06-G | Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording clarifies (i.e., does not substantially change) the underlying concepts. |
| Sep 2021 | 21.09-A | A transfer recipient recognizes a liability (deferred revenue) in its binding arrangement when it has received resources prior to fulfilling its present (compliance) obligation(s), and the enforceable terms of the binding arrangement require the entity (i.e., the transfer recipient) to transfer resources to another party if it does not fulfill its present (compliance) obligation(s). |
| Sep 2021 | 21.09-B | A liability (deferred revenue) is extinguished as the transfer recipient fulfills its present (compliance) obligations to earn revenue. |
| Sep 2021 | 21.09-D | The guidance in the draft IPSAS should be reordered to require the entity to consider up front whether the transaction arises without or with a binding arrangement. |
| Sep 2021 | 21.09-G | Where the transfer provider in a binding arrangement transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset. |
| Oct 2021 | 21.10-A | Present revenue guidance in a single IPSAS. |

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| | | |
|----------|----------------|---|
| Dec 2021 | 21.12-A | [This decision is superseded by the March 2022 Decision] The existing term 'performance obligation' should be adopted for binding obligations arising from revenue transactions with binding arrangements subject to any further staff analysis. |
| Dec 2021 | 21.12-C | The proposed guidance should be incorporated in the <i>Revenue</i> IPSAS to clarify how an entity should distinguish its individual obligations in a binding arrangement, with refinements. |
| Dec 2021 | 21.12-E | An entity's obligation in a binding arrangement in Revenue accounting is a narrower concept than 'present obligation' in the IPSASB Conceptual Framework: it is a legally binding obligation in a binding arrangement, which is a unit of account for revenue accounting, to use resources received/receivable in compliance with the terms of the binding arrangement. |
| Dec 2021 | 21.12-F | Specified activities and eligible expenditures are examples of ways in which an entity may fulfill its obligations in a binding arrangement. |
| Mar 2022 | 22.03-A | The term 'compliance obligation' should be used for the single concept of an entity's legally binding obligation arising from a revenue transaction with a binding arrangement. |
| Mar 2022 | 22.03-D | An entity should consider whether changes in external factors indicate a change in the substance of its binding arrangement, or collectively with internal factors (such as intention to enforce) inform subsequent measurement considerations. |

IPSASB instructions

| Meeting | Change ID | Instructions |
|----------|----------------|---|
| Mar 2021 | 21.03-D | Revise and relocate existing guidance related to binding arrangements and enforceability to better communicate the agreed upon principles, and examples of indicators to help an entity assess whether enforceability can be demonstrated. |
| Mar 2021 | 21.03-E | Revise guidance in accordance with all other proposed changes outlined in Appendix 4 of the March 2021 Agenda Item 5.2.4 . |
| Mar 2021 | 21.03-F | Determine whether the use of the term binding arrangement, as currently defined in [draft] IPSAS, <i>Revenue with Performance Obligations</i> , is conceptually consistent with the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework) and existing IPSAS, and whether the current definition and term is still appropriate at standards-level. Consider source material of definitions in IPSAS, and whether there is an issue with consistency from sourced literature. |
| Mar 2021 | 21.03-H | Draft guidance to better articulate that performance obligations also entail a greater specificity, and provide more objective and specific identification, recognition, and measurement of revenue. |
| Mar 2021 | 21.03-I | Draft additional Basis for Conclusions paragraphs to address concerns from specific constituents to explain why the IPSASB decided to move away from using exchange and non-exchange as defined terms to classify revenue and to explain that it remains an appropriate concept used to describe the economic substance of such transactions in the public sector. |
| Mar 2021 | 21.03-K | Refine existing guidance on what gives rise to a liability (deferred revenue). |
| Apr 2021 | 21.04-F | Provide explicit guidance on that assessment of enforceability when an entity first enters into an arrangement is based on the ability to enforce and not probability of enforcement at inception. |

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| | | |
|----------|----------------|---|
| Sep 2021 | 21.09-C | Revise authoritative guidance to articulate the principle related to the recognition of a liability (deferred revenue) associated with an entity's (i.e., transfer recipient's) present (compliance) obligation(s) in a binding arrangement, and ensure non-authoritative guidance clarifies how other liabilities that may arise in a binding arrangement should be accounted for using other IPSAS. |
| Sep 2021 | 21.09-E | Ensure the draft IPSAS include clear structure and signposting for ease of use. |
| Dec 2021 | 21.12-B | Adapt the definition of a 'performance obligation' to capture the existing 'present obligations' concept that was developed as part of the revenue project. |
| Dec 2021 | 21.12-D | Refine proposed guidance in Appendix 1 and consider bringing in Unit of Account guidance from ED 81, where appropriate. |
| Dec 2021 | 21.12-G | Revise and relocate existing guidance, remove definitions of "specified activities" and "eligible expenditures", and consider whether to avoid use the terms in the authoritative guidance. |
| Mar 2022 | 22.03-B | Incorporate a diagram into the existing Basis for Conclusions to clarify the relationship between the new term 'compliance obligation' and present obligations and performance obligations. |
| Mar 2022 | 22.03-C | Revise the definition of 'compliance obligation' and ensure guidance clarifies that compliance is in relation to the terms of the binding arrangement. |
| Mar 2022 | 22.03-E | Incorporate proposed non-authoritative guidance, with revisions to clarify the implications of internal and external factors on accounting in a binding arrangement. |

Other

| Meeting | Change ID | Feedback |
|------------------------------------|---------------------|--|
| - | Editorials | Editorials or changes based on discussions with Board members, TAs, or Drafting Group |
| 2021 (Mar, Oct, Dec), and Mar 2022 | BA acc model | Changes to combine the accounting principles into a single binding arrangement model, where appropriate. IPSASB discussions (on March Agenda Item 5.2.5, October 3.2.1, and December 8.2.5 and 8.2.6) have supported that the fundamental accounting principles for revenue arising from any transactions with binding arrangements (whether from 'present obligations' as previously described ED 71 or 'performance obligations' as previously defined in ED 70) are consistent. Obligations arising from a binding arrangement ("compliance obligations") are conceptually "units of account" to determine the distinct components in a binding arrangement as a mechanism to recognize and measure revenue. Additional considerations may be required for compliance obligations that require a distinct transfer of goods or services to a specific external party/parties, to better reflect the exchange-type nature and clearer specificity and transfer of control for such compliance obligations, which may lead to different accounting results. |

[Draft] IPSAS, Revenue

The proposed guidance is presented in the following format. This guidance is still in draft and is subject to subsequent revisions.

| Guidance type | | | |
|---------------------|--|--|--------------------------------------|
| Section | | | |
| Purpose of guidance | Source (ED, Board decision, or staff proposal) | Notes: [Grey: in cases where guidance remains relatively unchanged from source] [Bold: main principles (per Framework preface paragraph 12)] [Proposed new or revised guidance for the revenue IPSAS] [Proposed deletions of guidance previously proposed in EDs] FYI: This guidance will be moved into standard format, with updated paragraph numbers. Guidance pending Board discussions on principle-related issues are marked with placeholders, in lieu of guidance. | Related Board discussion (Change ID) |

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Core Text

| Purpose | Sources | Draft Guidance | Related Board discussion |
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| Core Text | | | |
| Objective | | | |
| Objective | ED 71.1, ED 70.1, Board decision | <p>The objective of this [draft] Standard is to establish the principles that an entity (transfer recipient) shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions without performance obligations (as defined in [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations.</p> <p>The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from binding arrangements with a purchaser that include performance obligations to transfer promised goods or services to the purchaser or third party beneficiary.</p> | 21.10-A |
| Objective | ED 71.2, ED 70.2, Board decision | <p>To meet the objective in paragraph 1 Error! Reference source not found., the core principle of this [draft] Standard is that:</p> <ul style="list-style-type: none"> (a) Requires a transfer recipient shall an entity to consider the terms of the arrangement transaction, and all relevant facts and circumstances, when applying this [draft] Standard to determine the type of revenue transaction; and (b) Sets out the accounting requirements to account for the revenue transaction. <p>An entity shall recognize an asset and the associated revenue or deferred revenue to the extent it has satisfied any present obligations associated with the transaction. A transfer recipient shall</p> <p>Paragraphs AGXX-AGXX [ED 71 AG2 and ED 70 AG2-AG4] provides additional guidance on the Objective.</p> | 21.10-A Editorials |
| Scope | | | |
| Scope – exclusions | ED 71.3, ED 70.3, Board decision | <p>A transfer recipient An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for its revenue from transactions without performance obligations. This [draft] Standard does not apply to:</p> <ul style="list-style-type: none"> (a) Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70); (a) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26-31 of IPSAS 42, Social Benefits (the insurance approach); (b) A public sector combination that is a non-exchange transaction; | 21.10-A Editorials |

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| | | <p>(c) The accounting for contributions from owners;</p> <p>(d) Lease contracts within the scope of IPSAS 43, <i>Leases</i>;</p> <p>(e) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts¹;</p> <p>(f) Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, <i>Financial Instruments</i>;</p> <p>(g) Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, IPSAS 32, <i>Service Concession Arrangements: Grantor</i>, IPSAS 34, <i>Separate Financial Statements</i>, IPSAS 35, <i>Consolidated Financial Statements</i>, IPSAS 36, <i>Investments in Associates and Joint Ventures</i>, IPSAS 37, <i>Joint Arrangements</i>, IPSAS 39, <i>Employee Benefits</i> and IPSAS 40, <i>Public Sector Combinations</i>;</p> <p>(h) Non-monetary exchanges between entities in the same line of business to facilitate sales to purchasers resource providers or potential purchasers resource providers. For example, this draft Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to fulfill satisfy demand from their purchasers resource providers in different specified locations on a timely basis;</p> <p>(i) Gains from the sale of non-financial assets that are not an output of a transfer recipient's an entity's activities and within the scope of IPSAS 16, <i>Investment Property</i>, IPSAS 17, <i>Property, Plant, and Equipment</i> or IPSAS 31, <i>Intangible Assets</i>;</p> <p>(j) Changes in the value of other current assets Changes in the value of current and non-current assets arising from subsequent measurement;</p> <p>(k) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, <i>Agriculture</i>); and</p> <p>(l) The extraction of mineral resources.</p> | |
| Scope – specific exclusion | Public Sector Combinations ED 71.6 | 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 | |

¹ There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on Insurance contracts.

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| | | 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. | |
| Scope – specific exclusion | Contributions from Owners | | |
| | ED 71.7 | Contributions from owners are defined in IPSAS 1, <i>Presentation of Financial Statements</i> . 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 8 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 transfer recipient entity will pay fixed distributions to the transfer resource provider, with a return of the transfer resource provider'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, <i>Financial Instruments: Presentation</i> when distinguishing liabilities from contributions from owners. | |
| | ED 71.8 | A contribution from owners may be evidenced by, for example: <ul style="list-style-type: none"> (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. | |
| Scope – types of revenue | ED 71.5, ED 70.4, ED 70.5 | [N/A - propose to delete these scope paragraphs (which served to differentiate revenue types for scope purposes). Staff propose to use Definitions and AGs instead to help clarify differences] | 21.10-A |
| Definitions | | | |
| Definitions | ED 71.10, ED 71.11, | The following terms are used in this [draft] Standard with the meanings specified: | 21.03-E 21.03-G |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | ED 70.1, ED 70.7 Board decision | <p>For the purposes of this Standard, a <u>binding arrangement</u> is an arrangement that confers both enforceable rights and obligations, enforceable through legal or equivalent means, on both the parties to the arrangement. A <u>contract</u> is a type of <u>binding arrangement</u> (paragraphs IPSAS [X] (ED 70) AG7-AG12 provide additional guidance).</p> <p>A <u>binding arrangement asset</u> is an entity's right to consideration in exchange for goods or services that the entity has transferred to a purchaser or third-party beneficiary satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance). A transfer recipient's <u>binding arrangement asset</u> is an entity's right to a transfer to satisfy a present obligation when that right is conditioned on something other than the passage of time (for example, the entity's future performance).</p> <p>A <u>binding arrangement liability</u> is an entity's obligation to transfer goods or services to a purchaser or third-party beneficiary satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the purchaser resource provider. A transfer recipient's <u>binding arrangement liability</u> is an entity's obligation to satisfy a present obligation for which the entity has received an amount (or the amount is due) from the transfer provider.</p> <p>A <u>capital transfer</u> is an inflow, that arises from a binding arrangement, of cash or another asset with a specification that the transfer recipient entity acquires or constructs a non-financial asset that will be controlled by the transfer recipient entity. (Paragraph AG24 provides additional guidance.)</p> <p>A <u>compliance obligation</u> is an entity's promise in a binding arrangement to either use resources² internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.</p> <p>A <u>performance obligation</u> is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:</p> | 21.03-J 21.06-A 21.06-G 21.09-A 21.09-C 21.10-A 21.12-A 21.12-B 21.12-G Editorials |

² In this ~~draft~~ Standard, the term resource includes goods, and services, and other assets, ~~or goods or services~~ and may encompass cash or non-current assets.

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | <p>(a) A good or service (or a bundle of goods or services) that is distinct; or</p> <p>(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.</p> <p>A <u>contract</u> is an agreement between two or more parties that creates enforceable rights and obligations.</p> <p><u>Control of an asset</u> is the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, the asset.</p> <p>A <u>customer</u> is a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.</p> <p>Eligible expenditure is an outflow of resources incurred in accordance with the requirements set out in a binding arrangement. (Paragraphs AG25-AG26 provide additional guidance.)</p> <p><u>Expenses paid through the tax system</u> are amounts that are available to beneficiaries regardless of whether or not they pay taxes.</p> <p><u>Fines</u> are economic benefits or service potential received or receivable by public sector entities the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.</p> <p><u>Other compulsory contributions and levies</u> is cash or another asset, paid or payable to public sector entities the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.</p> <p>A <u>purchaser</u> is a party resource provider that pays provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary (paragraph Error! Reference source not found. provides additional guidance). A <u>customer</u> is a type of a <u>purchaser</u>.</p> | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | <p>A <u>resource provider</u> is the party that provides a resource to the entity.</p> <p><u>Revenue</u> is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.</p> <p>A <u>specified activity</u> is an action in a binding arrangement that must be completed by a transfer recipient. (Paragraph AG27 provides additional guidance.)</p> <p>The <u>stand-alone price value</u> (of a good or service) is the price at which an entity would provide a promised good or service separately to a purchaser or third-party beneficiary.</p> <p><u>Tax expenditures</u> are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.</p> <p>The <u>taxable event</u> is the event that the government, legislature, or other authority has determined will be subject to taxation.</p> <p><u>Taxes</u> are economic benefits or service potential compulsorily paid or payable to public sector entities the entity, 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 laws and/or regulations.</p> <p>A <u>third-party beneficiary</u> is an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets resources (paragraph Error! Reference source not found. provides additional guidance).</p> <p>For the purposes of this [draft] Standard, the <u>transaction price</u> is the amount of consideration to which a transfer recipient expects to be entitled in a transaction without performance obligations.</p> <p>For the purposes of this [draft] Standard, the <u>transaction price consideration</u> is the amount of consideration to which an entity expects to be entitled. For the purposes of this [draft] Standard, the transaction price is the amount of consideration to which an entity expects to be</p> | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | <p>entitled in exchange for transferring promised goods or services to a purchaser or third-party beneficiary, excluding amounts collected on behalf of third parties.</p> <p>A <u>transfer</u> is a transaction, other than taxes, in which an entity receives a good, service, or other asset³ resource from a resource provider (which may be another entity (which may be or an individual) without directly providing any good, service, or other asset in return.</p> <p>[The following definitions will be moved to the draft Transfer Expenses IPSAS:</p> <p>A <u>transfer provider</u> is an entity that provides a good, service or other asset to another entity without directly receiving any good, service or other asset in return.</p> <p>A <u>transfer recipient</u> is an entity that receives a good, service, or other asset from another entity without directly providing any good, service, or other asset to that entity.]</p> <p>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):</p> <p>(a) — A binding arrangement (paragraphs AG21.10-AG15 provide additional guidance);</p> <p>(b) — Control of an asset;</p> <p>(c) — A performance obligation; and</p> <p>(d) — A third-party beneficiary.</p> <p>Revenue is defined in IPSAS 1 and [draft] IPSAS [X] (ED 70).</p> <p>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.</p> | |
| Description – Revenue | <p>Revenue</p> <p>ED 71.12</p> | <p>Revenue comprises gross inflows of economic benefits or service potential received and receivable by the 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 are not considered revenue of the agent, as these amounts will not give</p> | |

³ ~~The definition of a transfer includes references to other asset (such as non-current assets) for completeness. Elsewhere in this [draft] Standard, references to goods and services or to goods or services are to be read as incorporating references to assets.~~

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | rise to an increase in net assets/equity 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. | |
| | ED 71.13 | Where a transfer recipient an entity incurs some cost in relation to revenue arising from a revenue transaction without performance obligations, the revenue is the gross inflow of future economic benefits or service potential, and any outflow transfer of resources is recognized as a cost of the transaction. For example, if a transfer recipient an entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (transfer resource 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. | 21.06-G |
| Description – Taxes | Taxes | | |
| | ED 71.27 | Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 10 as 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, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory 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 with a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers. | |
| | ED 71.28 | Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or 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/or 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 and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law. | |
| | ED 71.29 | The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | create binding arrangements between the government and the taxpayer. A binding arrangement, as defined in [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations , creates both enforceable rights and obligations on both parties to the arrangement and not a single right and obligation on each party. | |
| | ED 71.30 | Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. | |
| Identify the Revenue Transaction | | | |
| Types of revenue – with or without Binding arrangement (BA) | ED 71.4, <i>Moved from scope section for better flow.</i> <i>Additional clarity based on Board decision.</i> | <p>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.</p> <p>Public sector revenues may arise from transactions:</p> <ul style="list-style-type: none"> (a) Without binding arrangements (i.e., revenue without binding arrangements); or (b) With binding arrangements. <p>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 binding arrangements, or with binding arrangements that do not include transfers of distinct goods or services to external parties. Examples of these revenues include, but are not limited to:</p> <ul style="list-style-type: none"> (a) Taxes; (b) Capital transfers; and (c) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods or services in-kind, and the off-market portion of concessionary loans received. | 21.03-A 21.10-A Editorials |
| Types of revenue – analysis required | ED 70.31, <i>Board decision</i> <i>[Propose to not retain (nor revise) ED 71.31 flowchart and its footnotes, given substantial changes to IPSAS structure, and coverage]</i> | <p>At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement. The flowchart on the following page identifies the relevant paragraphs in this [draft] Standard related to asset, liability and revenue recognition and measurement, for revenue transactions without performance obligations. Requirements for the treatment of transactions are set out in paragraphs 32–154.</p> | 21.09-D 21.10-A 21.12-A 21.12-B |

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| | <i>elsewhere in this draft IPSAS]</i> | | |
| BA | Identify whether a Binding Arrangement Exists | | 21.09-D |
| BA: Enforceability | <i>ED 70.9, Board decision</i> | For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable for the satisfaction of their obligations. | 21.03-B Editorials |
| | <i>ED 71.22, ED 71.24, ED 70.AG10, ED 70.AG14, Board decision</i> | In determining whether an arrangement is enforceable, the transfer recipient entity considers the substance rather than the legal form of the arrangement. If past experience or knowledge 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. If the transfer recipient does not have this experience or knowledge, then the transfer recipient assumes that the transfer provider would enforce the binding arrangement and, therefore, enforceability has substance. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. | 21.03-D 21.06-C Editorials |
| BA: Enforceability, appropriations | <i>ED 71.36</i> | When A binding arrangement specifies may specify that the resources to be transferred to the transfer recipient entity by a transfer resource provider are subject to an appropriation being authorized. The transfer recipient entity considers whether, in substance, over form in determining whether the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient entity has to require the resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, control of those resources prior to the appropriation being authorized. | 21.03-E |
| | <i>ED 71.37</i> | The limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance when the transfer recipient entity can establish an enforceable right to those resources, before the appropriation is authorized. In such cases, the arrangement is enforceable and may be a binding arrangement. Paragraphs AG28-AG32 provides additional guidance on appropriations. | 21.03-E |
| BA: Interdependent rights and obligations; | <i>Board decision</i> | A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable. | 21.03-A 21.04-A |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| At least two-way enforceability | | | |
| BA: Forms | ED 70.9, <i>Addition to introduce forms, similar to other IPSAS [remainder from IFRS 15]</i> | Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements with purchasers vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of purchaser, the resource provider or the nature of the promised goods or services entity's promise in the binding arrangement). | 21.06-A 21.10-A Editorials |
| BA: Further guidance | ED 70.8 | Paragraphs AG7-AG24 provides additional guidance on binding arrangements. | |
| Types of revenue – signpost for applicable guidance | Board decision | An entity will apply the recognition and measurement criteria in this Standard as follows: (a) Revenue from transactions without binding arrangements are accounted for using paragraphs XX-XX; and (b) Revenue from transactions with binding arrangements are accounted for using paragraphs XX-XX. | 21.09-D 21.09-E |
| Revenue from Transactions without Binding Arrangements | | | |
| Recognition | | | |
| Recognizing asset from inflow or right to inflow of resources | Analysis of the Initial Inflow of Resources from Revenue Transactions without Performance Obligations ED 71.31, ED 71.32, ED 71.33, ED 71.38, ED 81 paragraph 5.6 | A transfer recipient An entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. The entity recognizes this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably. ⁴ An entity has control of an asset when it has the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from, the asset. A past event that gives the entity 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. | |

⁴ 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.

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| | ED 71.34 | The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes a transfer recipient's an entity'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 110, entities may, but are not required, to recognize services in-kind. | |
| | ED 71.31 | In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the transfer recipient entity will recognize as a liability until the obligations are satisfied. Contributions from owners do not give rise to revenue, so e. Each type of inflow of resources is analyzed, and any contributions from owners are accounted for separately. | |
| | | Probable Right to an Inflow of Resources | |
| | ED 81 paragraphs 5.6-5.123, ED 71.39, ED 71.40 | When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services or other assets which may be a resource that meets the definition of an asset and to be recognized as an asset. The transfer recipient entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the taxpayer or transfer resource provider's ability and intention to pay. For example, where (a) a government (transfer resource provider) agrees to transfer funds to a public sector transfer recipient entity and the entity is not required to satisfy any specific obligations (b) the entity is able to enforce its right in the agreement is binding through legal or equivalent means, 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. | |
| | ED 71.35 | An announcement of an intention to transfer resources to a public sector 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 resource 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, a transfer recipient an entity will not identify the resources as controlled until such time as the | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | entity's right in the agreement is binding enforceable, because the transfer recipient entity cannot exclude or regulate the access of the transfer resource provider to the resources. In many instances, the transfer recipient entity will need to establish enforceability of its control of resources before it can recognize an asset. If a transfer recipient an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transfer resource provider's access to those resources. | |
| | | Contingent Assets | |
| | ED 71.44 | 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). | |
| Without BA: recognition | Recognition of Revenue Transactions without Binding Arrangements | | |
| | ED 71.86 | When a transfer recipient an entity recognizes an inflow of resources as an asset for a revenue transaction with no present obligation as set out in paragraphs 32–43 without a binding arrangement, it recognizes revenue immediately. | |
| Measurement | | | |
| Without BA: measurement | Measurement of Revenue Transactions without Binding Arrangements | | |
| | ED 71.87 | Revenue from transactions without present obligations a binding arrangement shall be measured at the amount of the increase in net assets (i.e., the consideration received or receivable) recognized by the transfer recipient entity. | Editorials |
| | ED 71.88 | When, as a result of a revenue transaction without a present obligation a binding arrangement, a transfer recipient an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 59. | |
| Taxes | | | |
| Without BA: Taxes | Taxes | | |
| | ED 71.89 | A transfer recipient An entity shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met. | |
| | ED 71.90 | Resources arising from taxes satisfy the definition of an asset when the transfer recipient entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes 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 | |

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| | | at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer. | |
| | ED 71.91 | Taxation revenue arises only for the government that imposes the tax, 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 (transfer expense per draft IPSAS [X] (ED 72)). The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income taxes for the state government and several city governments, it does not recognize revenue in respect of the taxes collected—rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes. | |
| | ED 71.92 | Taxes do not satisfy the definition of contributions from owners, because the payment of taxes 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. | |
| | ED 71.93 | Taxes are a transaction without performance compliance obligations because the taxpayer 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 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. | |
| Without BA: | | The Taxable Triggering Event for Taxes and Other Compulsory Contributions and Levies | |
| Taxes – Taxable Event for Other Compulsory Contributions and Levies | ED 71.94 | Similar types of taxes are levied in many jurisdictions. The transfer recipient entity 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 and/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; | |

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| | | <p>(c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;</p> <p>(d) Customs duty is the movement of dutiable goods or services across the customs boundary;</p> <p>(e) Death duty is the death of a person owning taxable property; and</p> <p>(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.</p> | |
| | ED 71.95 | <p>Similar types of other compulsory contributions and levies occur in many jurisdictions. The transfer recipient entity analyzes the law and/or regulation 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:</p> <p>(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);</p> <p>(b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and</p> <p>(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).</p> | |
| Without BA: Taxes – Advance Receipts | ED 71.96 | <p>Advance Receipts of Taxes</p> <p>Consistent with the definitions of assets, liabilities, and the requirements of paragraph 89, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the taxable 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 transfer recipient's entity's entitlement to the taxes or 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 95), notwithstanding that the transfer recipient entity 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 for other compulsory contributions and levies occurs. When the taxable event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.</p> | |
| | | Measurement of Assets Arising from Taxation Transactions | |

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| Without BA: assets | ED 71.97 | Similar to the measurement of assets for transfers with present obligations as required by paragraph 60, Assets arising from taxation transactions are measured at their transaction price consideration. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the transfer recipient entity, which is consistent with most likely amount in paragraph 67. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets. | |
| | ED 71.98 | Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these 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, declarations made by taxpayers, 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: <ul style="list-style-type: none"> (a) The tax law and/or regulation allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements; (b) Taxpayers failing to file returns on a timely basis; (c) Valuing non-monetary assets for tax assessment purposes; (d) Complexities in tax law and/or regulation 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 and/or regulations (or laws and/or regulations 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 and/or regulation permitting taxpayers to defer payment of some taxes; and (g) A variety of circumstances particular to individual taxes and jurisdictions. | |
| | ED 71.99 | Measuring assets and revenue arising from taxation 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 in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . | |

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| | <i>ED 71.100</i> | In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax 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. However, there are exceptional circumstances when several reporting periods will pass before a taxable event 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. | |
| Without BA: | | Measurement of Taxes with Collection Uncertainty | |
| Taxes with collection uncertainty | <i>ED 71.101</i> | The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur in accordance with paragraphs 69-70. | |
| Without BA: | | Expenses Paid Through the Tax System and Tax Expenditures | |
| Expenses paid through tax | <i>ED 71.102</i> | Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system. | |
| | <i>ED 71.103</i> | 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. | |
| | <i>ED 71.104</i> | Taxation revenue shall not be grossed up for the amount of tax expenditures. | |
| | <i>ED 71.105</i> | 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. | |

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| | | 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. | |
| | ED 71.106 | 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 entities 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. | |
| Revenue from Transactions with Binding Arrangements | | | |
| Recognition | | | |
| With BA: accounting model | Step A: Identifying ED 70.8, Board decision | <p>Determining the Binding Arrangement</p> <p>An entity shall account for a binding arrangement with a purchaser using the five-step model if all of the following criteria are met:</p> <ul style="list-style-type: none"> (a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations; (b) The entity can identify each party's rights regarding the goods or services to be transferred under the binding arrangement; (c) The entity can identify the payment terms for the goods or services to be transferred satisfaction of each identified compliance obligation; (d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG26-AG28 provide additional guidance); and (e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary satisfying its compliance obligations in compliance with the terms of the binding arrangement (paragraphs AG29-AG31 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the purchaser's resource provider's ability and intention to pay that amount of | 21.03-E 21.12-A BA acc model |

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| | | <p>consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the binding arrangement if the consideration is variable because the entity may offer the purchaser resource provider a price concession (see paragraph 51).</p> <p>Paragraphs AG7-AG24 provide additional guidance on identifying the binding arrangement.</p> | |
| | ED 70.12, <i>Clarifications to reflect IPSASB discussions</i> | <p>If a binding arrangement with a purchaser meets the criteria in paragraph 8 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a purchaser's resource provider's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the purchaser or third party beneficiary satisfaction of any remaining compliance obligations in the binding arrangement.</p> | 21.12-A BA acc model |
| With BA | ED 70.13, ED 70.14, <i>Clarifications to reflect IPSASB discussions</i> | <p>When a binding arrangement with a purchaser within the scope of this [draft] Standard does not meet all of the criteria in paragraph 8, and receives consideration from the purchaser, the entity shall recognize the any consideration received as revenue only when either of the following events has occurred:</p> <ul style="list-style-type: none"> (a) The entity has transferred the goods or services fully satisfied its compliance obligation to which the consideration that has been received relates, the entity has no obligation to transfer additional goods or services for the consideration received, and the consideration received from the purchaser resource provider is non-refundable; or (b) The binding arrangement has been terminated and the consideration received from the purchaser resource provider is non-refundable. <p>An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 8 are subsequently met.</p> | 21.12-A BA acc model Editorials |
| BA: Wholly unsatisfied | ED 70.11 | <p>For the purpose of applying this [draft] Standard, an arrangement is not a binding arrangement does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed unsatisfied binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed unsatisfied if both of the following criteria are met:</p> <ul style="list-style-type: none"> (a) The entity has not yet transferred any promised goods or services to the purchaser or third party beneficiary satisfied any of its compliance obligations in the binding arrangement; and | 21.12-A |

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| | | (b) The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services satisfying its compliance obligations in compliance with the terms of the binding arrangement. | |
| BA: consider after identifying existence of BA | <i>Board decision</i> | If an entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the five-step model, the entity shall also consider whether it should be combined with other binding arrangements, and there are any modifications to its binding arrangement. | 21.09-D |
| Combination of BAs | <i>Combination of Binding Arrangements</i> | | |
| | <i>ED 70.16</i> | An entity shall combine two or more binding arrangements entered into at or near the same time with the same purchaser-resource provider (or related parties of the purchaser-resource provider) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met: (a) The binding arrangements are negotiated as a package with a single objective; (b) The amount of consideration to be paid in one binding arrangement depends on the price consideration or performance of the other binding arrangement; or (c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance compliance obligation in accordance with paragraphs 21–29. | Editorials |
| Modifications to a BA | <i>Modifications to a Binding Arrangement</i> | | |
| | <i>ED 70.17</i> | A modification to a binding arrangement is a change in the scope or price consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved. | Editorials |
| | <i>ED 70.18</i> | A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price consideration (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price consideration. In determining whether the rights and obligations that are created or changed by a | Editorials |

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| | | modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price consideration, an entity shall estimate the change to the transaction price consideration arising from the modification in accordance with paragraphs 49–53 on estimating variable consideration and paragraphs 55–57 on constraining estimates of variable consideration. | |
| | ED 70.19 | <p>An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:</p> <ul style="list-style-type: none"> (a) The scope of the binding arrangement increases because of the addition of promised goods or services promises that are distinct (in accordance with paragraphs 25–29); and (b) The price consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone prices values of the additional promised goods or services promises and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone price value of an additional good or service for a discount that the purchaser resource provider receives, because it is not necessary for the entity to incur the related costs that it would incur when providing a similar good or service to a new purchaser resource provider. | Editorials |
| | ED 70.20 | <p>If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 19, an entity shall account for the promised goods or services promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services promises) in whichever of the following ways is applicable:</p> <ul style="list-style-type: none"> (a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services promises are distinct from the goods or services transferred promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance compliance obligations (or to the remaining distinct goods or services promises in a single performance compliance obligation identified in accordance with paragraph 21(b)) is the sum of: | |

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| | | <p>(i) The consideration promised by the purchaser resource provider (including amounts already received from the purchaser resource provider) that was included in the estimate of the transaction price consideration and that had not been recognized as revenue; and</p> <p>(ii) The consideration promised as part of the modification to a binding arrangement.</p> <p>(b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services promises are not distinct and, therefore, form part of a single performance compliance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction price consideration, and on the entity's measure of progress towards complete satisfaction of the performance compliance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).</p> <p>If the remaining goods or services promises are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.</p> | |
| With BA: Duration | <i>Duration of a Binding Arrangement</i> <i>ED 70.10</i> | Some binding arrangements with purchasers may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this draft Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which both the parties to the binding arrangement have present enforceable rights and obligations. | 21.06-A |
| With BA – compliance obligation, at least one per BA | Step B: Identifying Compliance Obligations in a Binding Arrangement <i>ED 70.21,</i> <i>ED 71.14</i> <i>(absorbed),</i> <i>Board decision,</i> <i>ED 81 unit of</i> <i>account guidance,</i> | <p>At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a purchaser resource provider and shall identify as a performance compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) or third-party beneficiary), either:</p> <p>(a) A good or service (or a bundle of goods or services) that is distinct; or</p> | 21.12-A 21.12-B 21.12-D Editorials |

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| | <i>Board decision</i> | <p>(b) A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use or transfer to the purchaser or third-party beneficiary (see paragraph 22).</p> <p>Paragraphs AG32-AG42 provide additional guidance on identifying performance compliance obligations.</p> | |
| | <i>Board decision</i> | A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid. | 21.03-A |
| | <i>ED 70.22, Board decision</i> | <p>A series of distinct goods or services has the same pattern of use or transfer to the purchaser or third-party beneficiary if both of the following criteria are met:</p> <p>(a) Each distinct good or service in the series that the entity promises to transfer to the purchaser or third-party beneficiary would meet the criteria in paragraph 34 to be a performance compliance obligation satisfied over time; and</p> <p>(b) In accordance with paragraphs 38–39, the same method would be used to measure the entity's progress towards complete satisfaction of the performance compliance obligation to transfer each distinct good or service in the series to the purchaser or third-party beneficiary.</p> | 21.12-A 21.12-B |
| With BA – Identify promises to use resources which may qualify as an individual compliance obligation | Promises to Use Resources | | |
| | <i>ED 70.23, Board decision</i> | A binding arrangement with a purchaser generally explicitly states the goods or services that an entity promises to either use internally or transfer to a purchaser or third-party beneficiary. However, the performance compliance obligations identified in a binding arrangement with a purchaser may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement with a purchaser may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the purchaser resource provider that the entity will transfer a good or service to the purchaser or third-party beneficiary perform, and are of sufficient specificity for them to be able to hold the entity accountable. | 21.12-A 21.12-B 21.12-C 21.12-D Editorials |
| | <i>ED 70.24, Board decision</i> | Performance Compliance obligations do not include activities that an entity must undertake to fulfill satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a service internally or transfer a | 21.12-C 21.12-D Editorials |

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| | | service to the a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a performance compliance obligation. | |
| With BA – Distinguish individual compliance obligations | Identifying Distinct Promises to Use Resources | | |
| | ED 70.26, ED 81 unit of account guidance, Board decision | <p>A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised to a purchaser in a binding arrangement is distinct if both of the following criteria are met:</p> <p>(a) The purchaser party receiving the good or service can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to the purchaser that party (i.e., the good or service is capable of being distinct).; and</p> <p>(b) The entity's promise to use resource internally for the good or service or transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).</p> | 21.12-C 21.12-D 22.03-A Editorials |
| | Implicit based on Board decision and revised compliance obligation definition | <p>An entity determines if the party receiving the good or service is the reporting entity, resource provider (purchaser), or a specified third-party beneficiary, in accordance with paragraph 26(a) by considering the nature of its compliance obligation.</p> <p>(a) In a compliance obligation where an entity promises to use resources internally for a distinct good or service, the entity is the recipient of the goods or services.</p> <p>(b) In a compliance obligation where an entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.</p> <p>See [revised paragraph based on ED 70.AG25] for additional guidance.</p> | 21.12-A 21.12-B Editorials |
| | ED 70.27 | <p>A purchaser party can generate the economic benefits or service potential from the good or service in accordance with paragraph 26(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a purchaser party may be able to generate the economic benefits or service potential from the good or service on its own. For other goods or services, a purchaser party may be able to generate the economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the</p> | 21.12-A 21.12-B Editorials |

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| | | entity or another entity) or a resource that the purchaser party has already obtained from the entity (including goods or services that the entity will have already acquired for internal use or transferred to the purchaser or third-party beneficiary, under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the purchaser party can generate the economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly acquires for internal use or provides a good or service separately would indicate that a purchaser party can generate the economic benefits or service potential from the good or service on its own or with other readily available resources. | |
| | ED 70.28, Board decision | <p>In assessing whether an entity's promises to use resource internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 26(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises to transfer goods or services to a purchaser or third-party beneficiary are not separately identifiable include, but are not limited to, the following:</p> <ul style="list-style-type: none"> (a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the purchaser resource provider has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the purchaser resource provider. A combined output or outputs might include more than one phase, element or unit. (b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement. (c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfill satisfy its promise by acquiring each of the goods or services internally, or transferring each of the goods or services, independently. | 21.12-A 21.12-B Editorials |

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| | <i>ED 70.29, Board decision</i> | If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a binding arrangement as a single performance compliance obligation. | 22.03-A |
| With BA: Executory contract principle – no recognition where an arrangement is wholly unperformed | <i>Board decision</i> | Initial Recognition of Revenue Transactions with a Binding Arrangement When a binding arrangement is wholly unperformed, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. A binding arrangement is wholly unperformed if both of the following conditions are met: (a) The entity has not yet satisfied any of its compliance obligations in the binding arrangement; and (b) The resource provider has not yet paid, and is not yet obligated to pay, consideration to the entity for the entity satisfying any of its compliance obligations in the binding arrangement. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> . Paragraphs AGXX–AGXX provide additional guidance on unsatisfied binding arrangements. | 21.04-A |
| Recognizing asset from inflow of resources | <i>ED 71.31, Board decision</i> | Analysis of the Initial Inflow of Resources A transfer recipient An entity may receive an inflow of resources arising from a revenue transaction before or after it begins satisfying its compliance obligations. An entity should apply paragraphs XX-XX [ED 71 paragraphs above in “Analysis of the Initial Inflow of Resources” section] , and recognizes an asset arising from an inflow of resources arising from a revenue transaction without performance obligations with a binding arrangement as an asset when it gains control of those resources. A transfer recipient is considered to control an inflow of resources when the definition of an asset and the recognition criteria are met. | 21.09-D |
| With BA: Existence and recognition of a liability | <i>ED 71.45, ED 71.51</i> | Existence and Recognition of a Liability Public sector entities typically obtain assets receive resources from governments, other entities, or by purchasing or producing them . When a transfer recipient an entity recognizes an asset for an inflow of resources, it shall consider if there are present compliance obligations related to the inflow which result in the recognition of a liability. | Editorials |
| | <i>ED 71.16, ED 71.43, ED 71.47,</i> | A compliance obligation gives rise to a liability when: (a) The entity received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and | 21.03-J 21.03-K 21.06-G |

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| | ED 70.15, <i>Board decision</i> | <p>(b) The resource provider can enforce the binding arrangement by requiring the entity to transfer resources to another party if it does not satisfy the compliance obligation(s) associated with the consideration received in compliance with the terms of the binding arrangement repaying the resources to the transfer provider or incurring some other form of penalty.</p> <p>See additional guidance in AGXX-AGXX.</p> | 21.09-A 21.09-C Editorials |
| | ED 71.43, ED 71.46, ED 71.49, ED 70.15 | <p>A present obligation arising from a transaction without a performance obligation compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when:</p> <p>(a) It is probable that an outflow a transfer of resources embodying future economic benefits or service potential will be required to settle the obligation if it does not satisfy the compliance obligation(s); and</p> <p>(b) A reliable estimate can be made of the amount of the obligation.</p> | 21.09-A 21.09-C |
| | ED 71.23, ED 71.25, ED 70.15, <i>Board decision</i> | <p>For a binding arrangement to give rise to a present obligation, liability to exist, it is necessary that the transfer recipient entity cannot avoid an outflow a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the transfer resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the entity's non-compliance (i.e., not satisfying its compliance obligation(s)).</p> | 21.03-K 21.09-A 21.09-C |
| | ED 71.26, <i>Board decision</i> | <p>As an administrative convenience, a transfer of resources as a consequence of not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The transfer recipient entity will still recognize the gross amounts in its financial statements: that is, the transfer recipient entity 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.</p> | 21.09-A 21.09-C |
| | ED 71.50 | <p>If a transfer recipient an entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.</p> | |
| | ED 71.43, ED 70.15, <i>Board decision</i> | <p>The entity shall continue to recognize its liability until one of the events in paragraph 14 occurs or until the criteria in paragraph 8 are subsequently met (see paragraph 13).</p> | 21.09-B |
| Step C: Recognition of Revenue Transactions with a Binding Arrangement | | | |

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| With BA: Recognize revenue as compliance obligation is satisfied | ED 71.53, <i>Modified for more BA focused lead-in</i> | When an entity receives an inflow of resources arises from in a revenue transaction without performance obligations, but with present obligations, is recognized as with a binding arrangement that meet the definition and recognition criteria of an asset in accordance with paragraphs XX-XX [ED 71.31-35, 38-40, 44 above in “Analysis of the Initial Inflow of Resources” section], the entity shall recognize: (a) Revenue shall also be recognized for any satisfied compliance obligations in respect of the same inflow; and (b) except to the extent that a liability is recognized A liability for any unsatisfied present compliance obligations in respect of the same inflow. | BA acc model 21.03-J 21.09-A |
| | ED 71.54, ED 71.56, ED 71.57, ED 70.30, <i>Board decision</i> | The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognize revenue from a transaction with a binding arrangement when (or as) the entity satisfies a performance/present compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement. The entity shall reduce an equal amount of the carrying amount of any liability in accordance with paragraphs XX-XX that was recognized upon receipt of an inflow of resources. Paragraphs [ED70. AG43-AG60] provides additional guidance on the satisfaction on performance compliance obligations. | BA acc model 21.09-A |
| | ED 70.30, <i>Board decision</i> | An entity shall recognize revenue when (or as) the entity satisfies a performance compliance obligation by using resources to acquire a promised good or service (i.e., an asset) to for use internally, or transferring to transfer a promised good or service to a purchaser resource provider or third-party beneficiary. An asset is acquired for internal use or transferred when (or as) the purchaser resource provider or third-party beneficiary entity receiving the asset obtains control of that asset. | 22.03-A |
| | ED 70.32, <i>Added example of g/s used internally</i> | Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). The economic benefits or service potential embodied in an asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the entity’s objectives, that can be obtained directly or indirectly in many ways, such as by: (a) Using the asset to provide internal training; (b) Using the asset to produce goods or provide services (including public services); (c) Using the asset to enhance the value of other assets; | Editorials |

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| | | <p>(d) Using the asset to settle liabilities or reduce expenses;</p> <p>(e) Selling or exchanging the asset;</p> <p>(f) Pledging the asset to secure a loan; and</p> <p>(g) Holding the asset.</p> | |
| | <p>ED 71.55 [Proposed deletion]</p> | <p>[N/A – proposed deletion: The first sentence referred to transactions without binding arrangements, which is already covered by ED 71.86. The principle in the second sentence is already presented in the above paragraphs. The last sentence relates to scope, as inflows resulting from contribution from owners is covered by other IPSAS.]</p> <p>When a transfer recipient recognizes an increase in net assets as a result of a transaction without performance obligations and there are no present 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 a present obligation is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.</p> | |
| | <p>ED 71.58, ED 70.31, Board decision</p> | <p>For each present compliance obligation identified in accordance with paragraphs XX-XX, an entity shall determine at the inception of the binding arrangement whether it satisfies the present compliance obligation over time (in accordance with paragraphs XX-XX) or satisfies the present compliance obligation at a point in time (in accordance with paragraphs XX-XX). If the entity does not satisfy a present compliance obligation over time, the present compliance obligation is satisfied at a point in time.</p> | <p>BA acc model 22.03-A</p> |
| With BA: Satisfy non-exchange-type compliance obligation | <p>Compliance Obligations to Acquire Goods or Services for Internal Use</p> <p><i>Satisfied Over Time</i></p> <p>ED 70.34, Board decision</p> | <p>An entity transfers obtains control of a good or service over time and, therefore, satisfies a performance compliance obligation and recognizes revenue over time, if one of the following criteria is met:</p> <p>(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see ED 70 paragraphs AG44–AG45);</p> <p>(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser resource provider or third party beneficiary entity controls as the asset is created or enhanced (see ED 70 paragraph AG46); or</p> | <p>21.12-A 21.12-B BA acc model Editorials</p> |

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| | | (c) The entity's performance does not create an asset with an alternative use to the entity (see ED 70 paragraph 35) and the entity has an enforceable right to payment consideration for performance completed to date (see ED 70 paragraph 36). | |
| | ED 70.35, Board decision | An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance compliance obligation. ED 70 Paragraphs AG47–AG49 provide guidance for assessing whether an asset has an alternative use to an entity. | BA acc model |
| | ED 70.36, Board decision | An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to payment consideration for performance any compliance obligation completed to date in accordance with paragraph 34(c). The right to payment consideration for performance any compliance obligation completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for performance any compliance obligation completed to date if the binding arrangement is terminated by the purchaser resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised. Paragraphs AG50–AG54 provide guidance for assessing the existence and enforceability of a right to payment consideration and whether an entity's right to payment would entitle the entity to be paid for its performance any compliance obligation completed to date. | BA acc model Editorials |
| | | Satisfied at a Point in Time | |
| | ED 70.37, Board decision | If a performance compliance obligation is not satisfied over time in accordance with ED 70 paragraphs 34–36, an entity satisfies the performance compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary the entity obtains or transfers control of a promised asset and the entity satisfies a performance compliance obligation, the entity shall consider the requirements for control in ED 70 paragraphs 30–33. | BA acc model |
| | Compliance Obligations to Transfer Goods or Services to Another Party | | |

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| With BA: Satisfy exchange-type compliance obligation | | Satisfied Over Time | |
| | ED 70.34, Board decision | <p>An entity transfers control of a good or service over time and, therefore, satisfies a performance compliance obligation and recognizes revenue over time, if one of the following criteria is met:</p> <ul style="list-style-type: none"> (a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see ED 70 paragraphs AG44–AG45); (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see ED 70 paragraph AG46); or (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 35 [refer to paragraph based on ED 70.35 above]) and the entity has an enforceable right to payment consideration for performance completed to date (see paragraph 36 [refer to paragraph based on ED 70.36 above]). | BA acc model |
| | | Satisfied at a Point in Time | |
| | ED 70.37, Board decision | <p>If a performance compliance obligation is not satisfied over time in accordance with ED 70 paragraphs 34–36, an entity satisfies the performance compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the entity satisfies a performance compliance obligation, the entity shall consider the requirements for control in ED 70 paragraphs 30–33. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:</p> <ul style="list-style-type: none"> (a) The entity has a present right to payment consideration for the asset—if a purchaser is presently obligated to pay for an asset, then that may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange. (b) The purchaser or third-party beneficiary has legal title to the asset—legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity | BA acc model |

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| | | <p>retains legal title solely as protection against the purchaser's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.</p> <p>(c) The entity has transferred physical possession of the asset—the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a purchaser or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the purchaser controls. ED 70 Paragraphs AG114–AG126, AG127–AG128 and AG129–AG132 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.</p> <p>(d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance compliance obligation in addition to the performance compliance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a purchaser but not yet satisfied an additional performance compliance obligation to provide maintenance services related to the transferred asset.</p> <p>(e) The purchaser has accepted the asset—the purchaser's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in ED 70 paragraphs AG133–AG136.</p> | |
| With BA: measuring satisfaction over | ED 70.38 | <p>Measuring Progress Towards Complete Satisfaction of a Performance Compliance Obligation</p> <p>For each performance compliance obligation satisfied over time in accordance with paragraphs 34–36, an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance compliance obligation. The objective when measuring progress is to depict an entity's</p> | 21.10-A |

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| time, including SA/EE | | performance in transferring control of goods or services promised to a purchaser or third-party beneficiary (i.e., the satisfaction of an entity's performance to satisfy its compliance obligation). | |
| | ED 70.39 | An entity shall apply a single method of measuring progress for each performance compliance obligation satisfied over time and the entity shall apply that method consistently to similar performance compliance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance compliance obligation satisfied over time. | |
| | | Methods for Measuring Progress | |
| | ED 70.40 | Appropriate methods of measuring progress include output methods and input methods. ED 70 Paragraphs AG55–AG60 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a performance compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the purchaser or third-party beneficiary, entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively. | 21.10-A 21.12-G |
| | ED 70.41, Board decision | When applying a method for measuring progress for a specific compliance obligation, an entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation: <ul style="list-style-type: none"> (a) For a compliance obligation where the entity promises to use resources to acquire a distinct good or service for internal use, the entity shall exclude from the measure of progress any goods or services for which the entity does not retain control. Conversely, an entity shall include in the measure of progress any goods or services for which the entity retains control when satisfying that compliance obligation; and (b) For a compliance obligation where the entity promises to use resources to transfer a distinct good or service to another party, the entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to another party (i.e., a purchaser or third-party beneficiary). Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to another party (i.e., a purchaser or third-party beneficiary) when satisfying that performance compliance obligation. | BA acc model 22.03-A 22.03-C |
| | ED 70.42 | As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance compliance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . | |

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| With BA: measuring satisfaction over time | | Reasonable Measures of Progress | |
| | ED 70.43 | An entity shall recognize revenue for a performance compliance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance compliance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress. | |
| | ED 70.44 | In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a performance compliance obligation, but the entity expects to recover the costs incurred in satisfying the performance compliance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance compliance obligation. | |
| With BA: Subsequent Consideration of Asset | | Subsequent Consideration of Asset Recognition Criteria | |
| | ED 71.41 | A transfer recipient An entity shall continue to assess the arrangement to determine whether the criteria for asset recognition in paragraph 40 are subsequently met. | |
| | ED 71.42 | When an inflow of resources arrangement with a transfer resource provider within the scope of this Standard does not meet the criteria in paragraph 40 and a transfer recipient an entity receives an inflow of resources from the transfer resource provider, the transfer recipient entity shall recognize the inflow received as revenue only when either of the following events has occurred: (a) The transfer recipient entity has no present compliance obligation; or (b) The arrangement has been terminated and the inflow received from the transfer resource provider is non-refundable. | |
| | ED 71.43, Board decision | A transfer recipient An entity shall recognize apply paragraphs XX-XX [“Existence and Recognition of a Liability” section] to determine whether the inflow received from a transfer resource provider as gives rise to 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 transfer recipient’s present obligation to act or perform in a certain way. The liability shall be measured at the amount of inflow received from the transfer provider. | 21.09-A 21.09-C |
| Measurement | | | |
| With BA: intro to measurement | ED 70.45 | When (or as) a performance compliance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price consideration (which excludes estimates of variable | |

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| | | consideration that are constrained in accordance with ED 70 paragraphs 55–57) that is allocated to that performance compliance obligation. | |
| With BA: | <i>Assets on Initial Recognition</i> | | |
| Measurement of an asset | ED 71.59 | An asset in a revenue transaction without performance obligations but with one or more present obligations with a binding arrangement shall initially be measured by the transfer recipient entity at its transaction price consideration as at the date in which the criteria for asset recognition is satisfied (see ED 71 paragraphs 60-79). | |
| With BA: | <i>Liabilities on Initial Recognition</i> | | |
| Measurement of a liability | ED 71.43 ED 71.82, ED 70.15 | The amount recognized as a liability shall be the best estimate of the amount required to settle the present compliance obligation at the reporting date. For the purposes of this [draft] Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources. In either case, the liability shall be measured at the amount of consideration received from the purchaser resource provider. | |
| | ED 71.83 | 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. | |
| With BA: | Step D: Determining the Transaction Price Consideration | | |
| Measurement (Step D) | ED 71.60 ED 70.46 | An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction price consideration. The transaction price consideration is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a purchaser or third party beneficiary, in the binding arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement with a purchaser may include fixed amounts, variable amounts, or both. | |
| | ED 71.61 | Credit risk is not considered when determining the amount the transfer recipient entity expects to receive be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41. | |
| | ED 71.62, ED 70.47 | The nature, timing and amount of the inflow/consideration affect the estimate of the transaction price consideration. When determining the transaction price consideration, a transfer recipient an entity shall consider the effects of all of the following: | |

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| | | <p>(a) Variable inflows/consideration (see paragraphs 64-68 and 71 [ED 70 49–54 and 58]);</p> <p>(b) Constraining estimates of variable inflows/consideration (see paragraphs 69-70 [ED 70 55–57]);</p> <p>(c) The existence of a significant financing component in the binding arrangement (see paragraphs 72-77 [ED 70 59–64]);</p> <p>(d) Non-cash consideration (see paragraphs 78–79 [ED 70 65–68]); and</p> <p>(e) Consideration payable to a purchaser resource provider (see ED 70 paragraphs 69–71).</p> | |
| | ED 71.63, ED 70.48 | For the purpose of determining the transaction price consideration, a transfer recipient an entity shall assume that the inflow/ consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified. | |
| With BA: | | <i>Variable Consideration</i> | |
| Measurement (Step D) – VC | ED 71.64, ED 70.49 | If the inflow/ consideration in the transaction binding arrangement includes a variable amount, a transfer recipient an entity shall estimate the amount of the inflow/ consideration to which the transfer recipient entity expects to collect from the transfer resource provider (or taxpayer) or third-party beneficiary. | Editorials |
| | ED 71.65, ED 70.50 | An amount of an inflow/ consideration can vary because of discounts, rebates, refunds, credits, negotiated concessions, incentives, performance bonuses, penalties or other similar items. The inflow/ consideration can also vary if a transfer recipient's an entity's entitlement to the inflow/ consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone specified in the binding arrangement. | |
| | ED 71.66, ED 70.51 | <p>The variability relating to the inflow/ consideration may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the inflow/ consideration is variable if either of the following circumstances exists:</p> <p>(a) The transfer resource provider (or taxpayer) has a valid expectation arising from a transfer recipient's an entity's customary practices, published policies or specific statements that the transfer recipient entity will accept an amount of inflow/ consideration that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the transfer recipient entity will offer a price concession or accept a reduced amount due to a concession. Depending on the jurisdiction, sector or transfer resource provider this offer may be referred to as a discount, rebate, refund or credit.</p> | |

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| | | (b) Other facts and circumstances indicate that the transfer recipient's entity's intention, when entering into the arrangement with the transfer resource provider, is to offer a negotiated concession to the transfer resource provider. | |
| | ED 71.67, ED 70.52 | <p>A transfer recipient An entity shall estimate an amount of variable inflows/ consideration by using either of the following methods, depending on which method the transfer recipient entity expects to better predict the amount of inflows/ consideration to which it expects to receive be entitled to:</p> <p>(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/ consideration if a transfer recipient an entity has a large number of transactions binding arrangements with similar characteristics; or</p> <p>(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 binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable inflows/ consideration if the transaction binding arrangement has only two possible outcomes (for example, a transfer recipient an entity either completes construction of infrastructure on schedule or not).</p> | |
| | ED 71.68, ED 70.53 | <p>A transfer recipient An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable inflows/ consideration which the transfer recipient entity expects to receive be entitled to. In addition, a transfer recipient an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that a transfer recipient an entity uses to estimate the amount of variable inflows/ consideration would typically be similar to the information that the transfer recipient's entity's management uses to estimate the amount receivable. In cases where the binding arrangement requires the entity to transfer distinct goods or services to another party, the information would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.</p> | |
| With BA: | | Refund Liabilities | |
| Measurement (Step D) – refund liabilities | ED 70.54 | An entity shall recognize a refund liability if the entity receives consideration from a purchaser resource provider and expects to refund some or all of that consideration to the purchaser resource provider, relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. A refund liability is | Editorials |

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| | | measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction price consideration). The refund liability (and corresponding change in the transaction price consideration and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in ED 70 paragraphs AG61–AG68. | |
| With BA: Measurement (Step D) – constraining estimates | | <i>Constraining Estimates of Variable Consideration</i> | |
| | ED 71.69, ED 70.55 | An entity shall include in the transaction price consideration some or all of an amount of variable consideration estimated in accordance with paragraph 67 [ED 70.52] only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. | |
| | ED 71.70, ED 70.56 | In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable inflow consideration is subsequently resolved, a transfer recipient an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following: <ul style="list-style-type: none"> (a) The amount of inflow consideration is highly susceptible to factors outside the transfer recipient's entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the inflow consideration (when it is non-cash) or promised good or service. (b) The uncertainty about the amount of inflow consideration 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. (c) The transfer recipient's entity's experience (or other evidence) with similar types of transactions binding arrangements is limited, or that experience (or other evidence) has limited predictive value. (d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances. (e) The transaction has a large number and broad range of possible inflow consideration amounts. | Editorials |
| | ED 70.57 | An entity shall apply ED 70 paragraphs AG111-AG113 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property. | |

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| With BA: Measurement (Step D) – reassess VC | ED 71.71, ED 70.58 | <i>Reassessment of Variable Consideration</i> At the end of each reporting period, a transfer recipient an entity shall update the estimated transaction price consideration (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. The entity shall account for changes in the transaction price consideration in accordance with ED 70 paragraphs 86–89. | |
| With BA: Measurement (Step D) – significant financing | ED 71.72, ED 70.59 | <i>The Existence of a Significant Financing Component in the Binding Arrangement</i> In determining the transaction price consideration, a transfer recipient an entity shall adjust the amount of inflow/ consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer resource provider or the transfer recipient entity with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations. | |
| | ED 71.73, ED 70.60 | The objective when adjusting the promised amount of inflows/ consideration for a significant financing component is for a transfer recipient an entity to recognize an asset revenue at an amount that reflects the price that a transfer resource provider would have received if the transfer resource provider had transferred cash (i.e., the cash price) for those the goods or services promised in the compliance obligation when (or as) the entity acquires them (for internal use) or transfers them (to the purchaser resource provider or third-party beneficiary). A transfer recipient An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following: <ul style="list-style-type: none"> (a) The difference, if any, between the amount of promised inflows/ consideration and the cash price of the transfer promised goods or services promised in the compliance obligation; and (b) The combined effect of both of the following: <ul style="list-style-type: none"> (i) The expected length of time between when the transfer recipient entity satisfies the present compliance obligation (if any) and when the transfer resource provider transfers the inflows/ consideration; and (ii) The prevailing interest rates in the relevant market. | |

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| | ED 71.74, ED 70.61 | <p>Notwithstanding the assessment in paragraph 73 [ED 70 paragraph 60], a transaction binding arrangement with a transfer resource provider (or taxpayer) would not have a significant financing component if any of the following factors exist:</p> <ul style="list-style-type: none"> (a) The transfer resource provider (or taxpayer) made the transfer in advance and the timing of when the present compliance obligation is satisfied is at the discretion of the transfer resource provider. (b) A substantial amount of the inflow promised by the transfer resource provider is variable and the amount or timing of that inflow/ consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the transfer resource provider or the transfer recipient entity. (c) The difference between the inflows/ consideration and the cash price of the transfer (as described in paragraph 73 [ED 70 paragraph 60]) arises for reasons other than the provision of finance to either the transfer resource provider or the transfer recipient entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the purchaser resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement. | |
| | ED 71.75, ED 70.62 | <p>As a practical expedient, a transfer recipient an entity need not adjust the inflows/ consideration for the effects of a significant financing component if the transfer recipient entity expects, at the inception of the binding arrangement, that the period between when the transfer recipient entity satisfies the present compliance obligation and when the transfer resource provider transfers the inflows/ consideration will be one year or less.</p> | |
| | ED 71.76, ED 70.63 | <p>To meet the objective in paragraph 73 [ED 70 paragraph 60] when adjusting the inflows/ consideration for a significant financing component, a transfer recipient an entity shall use the discount rate that would be reflected in a separate financing transaction between the transfer recipient entity and its transfer resource provider at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the transfer resource provider or the transfer recipient entity, including assets transferred in the binding arrangement. A transfer recipient An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the inflows/ consideration to the price that the transfer resource provider would transfer when (or as) the present compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, a transfer recipient an entity shall not update the discount rate for</p> | |

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| | | changes in interest rates or other circumstances (such as a change in the assessment of the transfer resource provider's credit risk). | |
| | ED 71.77, ED 70.64 | A transfer recipient An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements with transfer providers in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement with a transfer provider. | |
| With BA: | | Non-Cash Consideration | |
| Measurement (Step D) – non-cash | ED 71.78, ED 70.65 | To determine the transaction price consideration for assets binding arrangements in which a purchaser resource provider promises consideration in a form other than cash, a transfer recipient an entity shall measure the non-cash inflow/ consideration (or right to a non-cash inflow) at its fair value as at the time when the criteria for asset recognition is satisfied. | |
| | ED 70.66 | If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone price value of the goods or services to be acquired for internal use or transferred promised to the purchaser resource provider or third-party beneficiary (or class of purchaser resource provider) in exchange for the consideration. | |
| | ED 71.79, ED 70.67 | The fair value of the non-cash inflow/ consideration may vary because of the form of the inflow/ consideration. If the fair value of the non-cash inflow/ consideration promised by a transfer resource provider varies for reasons other than only the form of the inflow/ consideration, a transfer recipient an entity shall apply the requirements in paragraphs 69–70 [ED 70 paragraphs 55–57]. | |
| | ED 70.68 | If a purchaser resource provider contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's fulfillment satisfaction of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the purchaser resource provider. | |
| With BA: | | Step E: Allocating the Transaction Price Consideration to Present/Performance Compliance Obligations | |
| Measurement (Step E) | ED 71.80, ED 70.72 | The objective when allocating the transaction price consideration is for a transfer recipient an entity to allocate the transaction price consideration to each present/performance compliance obligation in the amount that depicts the amount of inflow/ consideration to which the transfer recipient entity expects to be entitled in satisfying the present compliance obligations. | |

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| | ED 71.81, ED 70.73 | To meet the allocation objective, a transfer recipient an entity shall allocate the transaction price consideration to each present performance compliance obligation identified in the binding arrangement on a relative stand-alone price value basis in accordance with ED 70 paragraphs 75–79, except as specified in [ED 70] paragraphs 80–82 (for allocating discounts) and ED 70 paragraphs 83–85 (for allocating consideration that includes variable amounts). The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied. | |
| | ED 70.74 | ED 70 Paragraphs 75–85 do not apply if a binding arrangement has only one performance compliance obligation. However, ED 70 paragraphs 83–85 may apply if an entity promises to acquire or transfer a series of distinct goods or services identified as a single performance compliance obligation in accordance with paragraph 21(b) and the promised consideration includes variable amounts. | |
| With BA: Measurement (Step E) – allocate by SAP | | <i>Allocation Based on Stand-Alone Prices Values</i> | |
| | ED 70.75 | To allocate the transaction price consideration to each performance compliance obligation on a relative stand-alone price value basis, an entity shall determine the stand-alone price value at the inception of the binding arrangement of the distinct good or service underlying each performance compliance obligation in the binding arrangement and allocate the transaction price consideration in proportion to those stand-alone prices values. | |
| | ED 70.76 | The stand-alone price value is the price at which an entity would acquire a distinct good or service for internal use or provide a promised good or service separately to a purchaser resource provider. The best evidence of a stand-alone price value is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar purchasers resource providers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone price value of that good or service. | |
| | ED 70.77 | If a stand-alone price value is not directly observable, an entity shall estimate the stand-alone price value at an amount that would result in the allocation of the transaction price consideration meeting the allocation objective in paragraph 72. When estimating a stand-alone price, an entity shall consider all information (including entity-specific factors, information about the purchaser resource provider or class of purchaser resource provider, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances. | |

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| | ED 70.78 | <p>Suitable methods for estimating the stand-alone price value of a good or service include, but are not limited to, the following:</p> <ul style="list-style-type: none"> (a) Adjusted market assessment approach—an entity could evaluate the market in which it acquires or provides goods or services and estimate the price that a purchaser other entities in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the other entities providing, or similar goods or services, and adjusting those prices as necessary to reflect the entity's costs and margins. (b) Expected cost approach—an entity could forecast its expected costs of satisfying a performance compliance obligation and, if applicable, add an appropriate margin for that good or service. (c) Residual approach—an entity may estimate the stand-alone price value by reference to the total transaction price consideration less the sum of the observable stand-alone prices values of other goods or services promised to be acquired or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with ED 70 paragraph 77, the stand-alone price value of a good or service only if one of the following criteria is met: <ul style="list-style-type: none"> (i) The entity acquires or provides the same good or service to different purchasers parties (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone price value is not discernible from past transactions or other observable evidence); or (ii) The entity has not yet established determined a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain). | |
| | ED 70.79 | <p>A combination of methods may need to be used to estimate the stand-alone prices values of the goods or services promised to be acquired or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone prices values. For example, an entity may use a residual approach to estimate the aggregate stand-alone price value for those promised goods or services with highly variable or uncertain stand-alone prices values and then use another method to estimate the stand-alone prices values of the individual goods or services relative to that estimated aggregate stand-alone price value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone price value of each promised good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction price consideration at those estimated stand-alone prices values</p> | |

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| | | would be consistent with the allocation objective in ED 70 paragraph 72 and the requirements for estimating stand-alone prices values in ED 70 paragraph 77. | |
| With BA: | | <i>Allocation of Variable Consideration</i> | |
| Measurement (Step E) – allocate VC | ED 70.83 | Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following: (a) One or more, but not all, performance compliance obligations in the binding arrangement (for example, a bonus may be contingent on an entity acquiring or transferring a promised good or service within a specified period of time); or (b) One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance compliance obligation in accordance with ED 70 paragraph 21(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index). | |
| | ED 70.84 | An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance compliance obligation or to a distinct good or service that forms part of a single performance compliance obligation in accordance with ED 70 paragraph 21(b) if both of the following criteria are met: (a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance compliance obligation or acquire or transfer the distinct good or service (or to a specific outcome from satisfying the performance compliance obligation or acquiring or transferring the distinct good or service); and (b) Allocating the variable amount of consideration entirely to the performance compliance obligation or the distinct good or service is consistent with the allocation objective in ED 70 paragraph 72 when considering all of the performance compliance obligations and payment terms in the binding arrangement. | |
| | ED 70.85 | The allocation requirements in ED 70 paragraphs 72–82 shall be applied to allocate the remaining amount of the transaction price consideration that does not meet the criteria in ED 70 paragraph 84. | |
| With BA: | | <i>Changes in the Transaction price Consideration</i> | |
| Measurement (Step E) – changes in TP | ED 70.86 | After the inception of the binding arrangement, the transaction price consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services to for satisfying its compliance obligation. | |

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| | ED 70.87 | An entity shall allocate to the performance compliance obligations in the binding arrangement any subsequent changes in the transaction price consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction price consideration to reflect changes in stand-alone prices values after the inception of the binding arrangement. Amounts allocated to a satisfied performance compliance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price consideration changes. | |
| | ED 70.88 | An entity shall allocate a change in the transaction price consideration entirely to one or more, but not all, performance compliance obligations or distinct goods or services promised in a series that forms part of a single performance compliance obligation in accordance with ED 70 paragraph 21(b) only if the criteria in paragraph 84 on allocating variable consideration are met. | |
| | ED 70.89 | <p>An entity shall account for a change in the transaction price consideration that arises as a result of a modification to a binding arrangement in accordance with ED 70 paragraphs 17–20. However, for a change in the transaction price consideration that occurs after a modification to a binding arrangement, an entity shall apply ED 70 paragraphs 86–88 to allocate the change in the transaction price consideration in whichever of the following ways is applicable:</p> <p>(a) An entity shall allocate the change in the transaction price consideration to the performance compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction price consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with ED 70 paragraph 20(a).</p> <p>(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with ED 70 paragraph 19, an entity shall allocate the change in the transaction price consideration to the performance compliance obligations in the modified binding arrangement (i.e., the performance compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).</p> | |
| With BA: | <i>Subsequent Measurement of Receivables</i> | | |
| subsequent measurement | ED 71.84-85 ED 70.AG140-141 | [Subject to upcoming IPSASB discussion in Agenda Item 3.2.6] | |
| Other Assets from Revenue Transactions with Binding Arrangement Costs | | | |
| | <i>Incremental Costs of Obtaining a Binding Arrangement</i> | | |

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| Possible asset: Costs of Obtaining | ED 70.90 | An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement with a purchaser if the entity expects to recover those costs. | |
| | ED 70.91 | The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement with a purchaser that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission). | |
| | ED 70.92 | Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the purchaser resource provider regardless of whether the binding arrangement is obtained. | |
| | ED 70.93 | As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. | |
| Possible asset: Costs to Fulfill | Costs to Fulfill a Binding Arrangement | | |
| | ED 70.94 | If the costs incurred in fulfilling a binding arrangement with a purchaser are not within the scope of another Standard (for example, IPSAS 12, <i>Inventories</i>, IPSAS 17, <i>Property, Plant, and Equipment</i> or IPSAS 31, <i>Intangible Assets</i>), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria: <ul style="list-style-type: none"> (a) The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved); (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance compliance obligations in the future; and (c) The costs are expected to be recovered. | |
| | ED 70.95 | For costs incurred in fulfilling a binding arrangement with a purchaser that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards. | |
| | ED 70.96 | Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following: | |

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| | | <p>(a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to the purchaser or third-party beneficiary);</p> <p>(b) Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary);</p> <p>(c) Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools and equipment used in fulfilling the binding arrangement);</p> <p>(d) Costs that are explicitly chargeable to the purchaser resource provider under the binding arrangement; and</p> <p>(e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).</p> | |
| | ED 70.97 | <p>An entity shall recognize the following costs as expenses when incurred:</p> <p>(a) General and administrative costs (unless those costs are explicitly chargeable to the purchaser resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 96);</p> <p>(b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;</p> <p>(c) Costs that relate to satisfied performance compliance obligations (or partially satisfied performance compliance obligations) in the binding arrangement (i.e., costs that relate to past performance fulfillment); and</p> <p>(d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance compliance obligations or to satisfied performance compliance obligations (or partially satisfied performance compliance obligations).</p> | |
| Possible asset: amortization and impairment | <p><i>Amortization and Impairment</i></p> <p>ED 70.98</p> | <p>An asset recognized in accordance with paragraph 90 or 94 shall be amortized on a systematic basis that is consistent with the transfer to the purchaser or third-party beneficiary of the goods or services satisfaction of the compliance obligation to which the asset relates. The asset may relate to goods or services to be transferred promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 94(a)).</p> | 21.12-A |

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| | ED 70.99 | An entity shall update the amortization to reflect a significant change in the entity's expected timing of transfer to the purchaser or third party beneficiary of the goods or services the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . | 21.12-A |
| | ED 70.100 | An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph 90 or 94 exceeds: (a) The remaining amount of consideration that the entity expects to receive in exchange for the goods or services for the satisfaction of the compliance obligations to which the asset relates; less (b) The costs that relate directly to providing those goods or services satisfying the compliance obligations and that have not been recognized as expenses (see paragraph 96). | |
| | ED 70.101 | For the purposes of applying paragraph 100 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction price consideration (except for the requirements in paragraphs 55–57 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the purchaser's resource provider's credit risk. | |
| | ED 70.102 | Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 90 or 94, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 17 and IPSAS 31). After applying the impairment test in paragraph 100, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 90 or 94 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, <i>Impairment of Cash-Generating Assets</i> to that cash-generating unit. | |
| | ED 70.103 | An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 100 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously. | |
| Application of Principles and Requirements to Specific Transfers | | | |
| | Application of Principles and Requirements to Specific Transfers | | |

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| Specific Transfers | ED 71.107 | Transfers may or may not arise from a binding arrangement. Subject to paragraph 110, a transfer recipient an entity 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. | |
| Specific Transfers – Capital Transfers | Capital Transfers | | |
| | ED 71.108 | An inflow of resources from a capital transfer that arises from a binding arrangement and is 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. See paragraphs AGXX-AGXX for additional guidance. | Editorials |
| | ED 71.109 | As a transfer recipient an entity satisfies the present compliance obligations 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. | |
| Specific Transfers – Services in kind | Services In-kind | | |
| | ED 71.110 | A transfer recipient An entity may, but is not required to, recognize services in-kind as revenue and as an asset. | |
| | ED 71.111 | Although recognition of services in-kind is not required by this [draft] Standard, transfer recipients entities are strongly encouraged to disclose services in-kind received particularly if they are integral to a transfer recipient's an entity's operations. | |
| | ED 71.112 | 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 transfer recipient entity controls a resource from which future economic benefits or service potential are expected to flow to the transfer recipient entity. 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 transfer recipient entity 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. | |
| | ED 71.113 | 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; | |

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| | | <p>(b) Persons convicted of offenses may be required to perform community service for a public sector entity;</p> <p>(c) Public hospitals may receive the services of volunteers;</p> <p>(d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and</p> <p>(e) Local governments may receive the services of volunteer fire fighters.</p> | |
| | ED 71.114 | <p>Some services in-kind do not meet the definition of an asset because the transfer recipient entity has insufficient control over the services provided. In other circumstances, the transfer recipient entity 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. Transfer recipients Entities 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 113, the transfer recipient entity 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 transfer recipient entity would acquire if the services in-kind were not available.</p> | |
| | ED 71.115 | <p>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 133, 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 transfer recipients entities, the services provided by volunteers are not material in amount, but may be material by nature.</p> | |
| | ED 71.116 | <p>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 transfer recipient entity. The extent to which a transfer recipient an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy a transfer recipient an entity develops regarding the recognition of assets. For example, a transfer recipient an entity 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</p> | |

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| | | class of services in-kind, the practices of similar entities operating in a similar environment are also considered. | |
| Specific Transfers – Pledges | Pledges <i>ED 71.117</i> | Pledges are unenforceable promises to transfer assets to the transfer recipient entity in the future. Pledges do not meet the definition of an asset, because the transfer recipient entity is unable to control the access of the transfer resource provider to the future economic benefits or service potential embodied in the item pledged. Transfer recipients Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the transfer recipient entity, it is recognized as a gift or donation, in accordance with paragraphs AG50–AG54. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19. | |
| Specific Transfers – Advance receipts | Advance Receipts of Transfers <i>ED 71.118</i> <i>Board decision</i> | Where a transfer recipient an entity 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 transfer recipient entity 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. This liability (advance receipt) may be recognized as a liability (deferred revenue), in accordance with paragraphs XX-XX ["Existence and Recognition of a Liability" section], when so a liability is recognized until the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all present compliance obligations under the agreement are fulfilled satisfied. When (or as) that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized. | 21.09-A 21.09-B |
| Specific Transfers – Concessionary loans | Concessionary Loans <i>ED 71.119</i> <i>ED 71.120</i> <i>Board decision</i> | Concessionary loans are loans received by a transfer recipient an entity 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. A transfer recipient An entity considers whether any difference between the transaction price consideration (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue with that should be accounted for in accordance with this [draft] Standard. Where a transfer recipient an entity determines that the difference between the transaction price consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue without performance obligations, a transfer recipient an entity recognizes the difference as revenue, except if a | 21.09-A 21.09-B |

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| | | present compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the transfer recipient entity result in a present compliance obligation. Where a present compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability it is recognized as a liability . As the transfer recipient entity satisfies the present compliance obligation, the liability is reduced and an equal amount of revenue is recognized. | |
| Presentation <i>[Note: the following paragraphs merge proposed guidance from ED 70 and ED 71. The only difference between these paragraphs is terminology, which has been noted with /strike through]</i> | | | |
| Without BA | | [Pending – to consider whether we need guidance re. presenting revenue without binding arrangements separate from revenue with BA] | |
| With BA | ED 71.121, ED 70.104 | When either party to a binding arrangement has performed, a transfer recipient entity shall present the binding arrangement in the statement of financial position as a transfer recipient's binding arrangement asset or a transfer recipient's binding arrangement liability, depending on the relationship between the transfer recipient's entity's performance and the transfer resource provider's transfer of consideration /payment . A transfer recipient An entity shall present any unconditional rights to a transfer consideration separately as a receivable. | BA acc model |
| | ED 71.122, ED 70.105 | If a transfer resource provider transfers cash or another asset /purchaser pays consideration , or a transfer recipient entity has a right to a transfer /consideration that is unconditional (i.e., a receivable), before the transfer recipient entity satisfies its present compliance obligation /entity transfers a good or service to the purchaser or third party beneficiary , the transfer recipient entity shall present the binding arrangement as a transfer recipient's binding arrangement liability when the transfer /payment is made or the transfer /payment is due (whichever is earlier). A transfer recipient's binding arrangement liability is a transfer recipient's an entity's obligation to satisfy a present compliance obligation /transfer goods or services to a purchaser or third party beneficiary for which the transfer recipient entity has received a transfer /consideration (or an amount of a transfer /consideration is due) from the transfer resource provider /purchaser . | BA acc model |
| | ED 71.123, ED 70.106 | If a transfer recipient an entity performs by satisfying a present compliance obligation /by transferring goods or services to a purchaser or third party beneficiary before the transfer /consideration is received or before the transfer /consideration is due, the transfer recipient entity shall present the binding arrangement as a transfer recipient's binding arrangement asset, excluding any amounts presented as a receivable. A transfer recipient's binding arrangement asset is a transfer recipient's an entity's right to a transfer of resources for satisfying a present obligation /to consideration in exchange for goods or services that the entity has | BA acc model |

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| | | transferred to a purchaser or third-party beneficiary. A transfer recipient/ entity shall assess a transfer recipient's binding arrangement asset for impairment in accordance with IPSAS 41, <i>Financial Instruments</i> . An impairment of a transfer recipient's binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 140(b)). | |
| | ED 71.124, ED 70.107 | A receivable is a transfer recipient's an entity's right to a transfer /consideration that is unconditional. A right to a transfer /consideration is unconditional if only the passage of time is required before a transfer /payment of that consideration is due. For example, a transfer recipient/ entity would recognize a receivable if it has a present right to a transfer /payment even though that amount may be subject to refund in the future. A transfer recipient An entity shall account for a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable from a binding arrangement, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss). | BA acc model |
| | ED 71.125, ED 70.108 | This [draft] Standard uses the terms 'transfer recipient's binding arrangement asset' and 'transfer recipient's binding arrangement liability' but does not prohibit a transfer recipient/ entity from using alternative descriptions in the statement of financial position for those items. If a transfer recipient/ entity uses an alternative description for a transfer recipient's binding arrangement asset, the transfer recipient/ entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and transfer recipient's binding arrangement assets. | BA acc model |
| Disclosures | | | |
| Disclosures | ED 71.126-154 ED 70.109-130 | [Subject to upcoming IPSASB discussions in Agenda Item 3.2.7] | |
| Effective Date and Transition | | | |
| <i>[Note: the following paragraphs merge proposed guidance from ED 70 and ED 71. The only difference between these paragraphs is terminology, which has been noted with /strike through]</i> | | | |
| Effective Date | Effective Date ED 71.155, ED 70.131 | A transfer recipient An entity shall apply this Standard for annual financial statements covering periods beginning on or after [DD/MM/YYYY]. Earlier application is encouraged. If a transfer recipient 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. | 21.10-A |

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| | ED 71.156, ED 70.132 | When a transfer recipient an entity adopts the accrual basis IPSAS as defined in IPSAS 33, <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i> for financial reporting purposes subsequent to this effective date, this Standard applies to the transfer recipient's/ entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS. | 21.10-A |
| Transition | Transition | | |
| | ED 71.157, ED 70.133 | For the purposes of the transition requirements in paragraphs 158–163 (ED 70.134–140): (a) The date of initial application is the start of the reporting period in which a transfer recipient an entity first applies this [draft] Standard; and (b) A completed binding arrangement is a binding arrangement for which (i) The transfer recipient entity has fulfilled satisfied all the conditions identified in accordance with IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> ; or (ii) The entity has transferred all of the goods or services satisfied all of its promises identified in accordance with IPSAS 9, <i>Revenue from Exchange Transactions</i> and IPSAS 11, <i>Construction Contracts</i> . | 21.10-A |
| | ED 71.158, ED 70.134 | A transfer recipient 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, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> , subject to the expedients in paragraph 160 (ED 70.136); or (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 162–163 (ED 70.138-140). | 21.10-A |
| | ED 71.159, ED 70.135 | Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, a transfer recipient an entity needs 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 transfer recipient entity applies this [draft] Standard retrospectively in accordance with paragraph 158(a) (ED 70.134(a)). A transfer recipient An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so. | 21.10-A |
| | ED 71.160, ED 70.136 | A transfer recipient An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 158(a) (ED 70.134(a)). | 21.10-A |

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| | | <p>(a) For completed binding arrangements, a transfer recipient an entity need not restate binding arrangements that:</p> <ul style="list-style-type: none"> (i) Begin and end within the same annual reporting period; or (ii) Are completed binding arrangements at the beginning of the earliest period presented. <p>(b) For completed binding arrangements that have variable consideration, a transfer recipient an entity may use the transaction price consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.</p> <p>(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity transfer recipient need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with ED 70 paragraphs 19–20. Instead, an entity transfer recipient shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:</p> <ul style="list-style-type: none"> (i) Identifying the satisfied and unsatisfied performance present obligations; (ii) Determining the transaction price consideration; and (iii) Allocating the transaction price consideration to the satisfied and unsatisfied performance present obligations. <p>(d) For all reporting periods presented before the date of initial application, a transfer recipient an entity needs not disclose the amount of the transaction price consideration allocated to the remaining present compliance obligations and an explanation of when the transfer recipient entity expects to recognize that amount as revenue (see paragraph 121).</p> | |
| | ED 71.161, ED 70.137 | <p>For any of the practical expedients in paragraph 160 (ED 70.136) that a transfer recipient an entity uses, the transfer recipient entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the transfer recipient entity shall disclose all of the following information:</p> <ul style="list-style-type: none"> (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. | 21.10-A |
| | ED 71.162, ED 70.138 | <p>If a transfer recipient an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 158(b) (ED 70.134(b)), the transfer recipient entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus (or other</p> | 21.10-A |

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| | | component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, a transfer recipient 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 a transfer recipient an entity with a December 31 year-end). | |
| | ED 70.139 | An entity applying this [draft] Standard retrospectively in accordance with paragraph 134(b) may also use the practical expedient described in paragraph 136(c), either: <ul style="list-style-type: none"> (a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or (b) For all modifications to a binding arrangement that occur before the date of initial application. If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 137. | 21.10-A |
| | ED 71.163, ED 70.140 | For reporting periods that include the date of initial application, a transfer recipient an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 158(b) (ED 70.134(b)): <ul style="list-style-type: none"> (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 9, IPSAS 11, and IPSAS 23; and (b) An explanation of the reasons for significant changes identified. | 21.10-A |
| Transition – Withdrawal of IPSAS 23 (2006) | Withdrawal of Other Standards ED 71.164, ED 70.141 | This [draft] Standard supersedes the following Standards: <ul style="list-style-type: none"> (a) IPSAS 9, <i>Revenue from Exchange Transactions</i>, issued in 2001; and (b) IPSAS 11, <i>Construction Contracts</i>, issued in 2001; and (c) IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> issued in 2006. IPSAS 9, IPSAS 11, and IPSAS 23 (2006) remain applicable until [draft] IPSAS [X] is applied or becomes effective, whichever is earlier. | 21.10-A |

Application Guidance

| Purpose | Sources | Draft Guidance | Related Board discussion |
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| Application Guidance | | | |
| AGs – introduction | ED 71.AG1 ED 70.AG1 | <p>This Appendix is an integral part of [draft] IPSAS [X].</p> <p>[Order of the list below may change based on the final revised ordering in core text]</p> <p>This Application Guidance is organized into the following categories:</p> <ul style="list-style-type: none"> (a) Objective (paragraphs XX); (b) Scope (paragraphs XX); (c) Definitions (paragraphs XX); (d) Identifying the Binding Arrangement Revenue Transaction and the Existence of a Binding Arrangement (paragraphs XX); <ul style="list-style-type: none"> (i) Enforceability of Revenue Transactions with a Binding Arrangement (ii) Enforceability of Revenue Transactions without Performance Obligations Subject to Appropriations (paragraphs XX); (e) Criteria for the Five-Step Model (f) Identifying Performance Compliance Obligations in a Binding Arrangement (paragraphs XX); (g) Recognition of Revenue from a Transaction with a Binding Arrangement <ul style="list-style-type: none"> (i) Performance Obligations Satisfied Over Time (paragraphs XX); (ii) Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (paragraphs XX); (h) Measurement of Revenue from a Transaction with a Binding Arrangement <ul style="list-style-type: none"> (i) Determining the Transaction Price Consideration / Determination of Stand-alone Price, Sale with a Right of Return (paragraphs XX) (ii) Warranties (paragraphs XX); (iii) Principal Versus Agent Considerations (paragraphs XX); (iv) Purchaser Resource Provider Options for Additional Goods or Services (paragraphs XX); (v) Purchasers' Resource Providers' Unexercised Rights (paragraphs XX); (vi) Non-refundable Upfront Fees (and Some Related Costs) (paragraphs XX); (i) Specific Application Issues <ul style="list-style-type: none"> (i) Other Transfers (paragraphs XX) | 21.10-A |

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| | | <ul style="list-style-type: none"> (ii) Measurement of Transferred Assets (paragraphs XX); (iii) Debt Forgiveness and Assumptions of Liabilities (paragraphs XX); (iv) Fines (paragraphs XX); (v) Bequests (paragraphs XX); (vi) Gifts, Donations, including Goods In-kind (paragraphs XX); (vii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs XX). (viii) Revenue from a Transaction with a Binding Arrangement with Transfers of Distinct Goods or Services to External Parties <ul style="list-style-type: none"> a. Licensing (paragraphs XX); b. Repurchase Agreements (paragraphs XX); c. Consignment Arrangements (paragraphs XX); d. Bill-and-Hold Arrangements (paragraphs XX); e. Purchaser Resource Provider Acceptance (paragraphs XX); f. Subsequent Measurement of Non-Contractual Receivables (paragraphs XX); (j) Disclosure (paragraphs XX); (i) Disclosure of Disaggregated Revenue (paragraphs XX). | |
| Objective (see paragraphs XX) | | | |
| Objective | ED 71.AG2, ED 70.AG2 | <p>To meet the objective in paragraph 1, the core principle of this draft Standard establishes principles and requirements for how a transfer recipient:</p> <ul style="list-style-type: none"> (a) Recognizes revenue from its transactions without binding arrangements or with binding arrangements; (b) Presents information about revenue and cash flows in the financial statements; and (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of revenue and cash flows arising from binding arrangements its revenue transactions. | 21.10-A |
| Scope (see paragraphs XX) | | | |
| Scope | ED 71.AG3, ED 71.AG4, ED 70.AG5 | <p>The scope of this draft Standard is limited to focused on establishing principles and requirements when accounting for revenue transactions without performance obligations. Revenue may arise from transactions without performance obligations may or may not arise from a binding arrangement or with binding</p> | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | arrangements. This [draft] Standard applies to both types of transactions. The definitions in paragraph XX establish the key elements in applying the scope of the [draft] Standard. A binding arrangement without performance obligations may contain one or more present obligations, which could result in the recognition of a liability. | |
| | ED 71.AG5 | [N/A – propose to delete this paragraph, which presented the definition of a present obligation from ED 71, and which ED applied to the transaction based on whether there is a performance obligation per ED 70.] | |
| | ED 71.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 also 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. | |
| Scope – specific to binding arrangements | ED 70.6 | This [draft] Standard specifies the accounting for the incremental costs of obtaining a binding arrangement with performance obligations and for the costs incurred to fulfill satisfy a binding arrangement with a purchaser if those costs are not within the scope of another Standard (see paragraphs 90–103). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement with a purchaser (or part of that binding arrangement) that is within the scope of this [draft] Standard. Paragraphs AG5-AG6 provide additional guidance on the Scope. | Editorials |
| Definitions (see paragraphs XX) | | | |
| Capital Transfer | Capital Transfer | | |
| | ED 71.AG24 | This [draft] Standard defines a capital transfer as a transaction, that arises from a binding arrangement, where a transfer resource provider provides cash or another asset with a specification that the transfer recipient entity acquires or constructs a non-financial asset that will be controlled by the transfer recipient entity. A capital transfer does not imposes a performance compliance obligation (as defined by [draft] IPSAS [X] (ED 70)) on the transfer recipient entity, but is not required to transfer a distinct good or service to a third-party because there is no requirement to transfer the non-financial asset acquired under the binding arrangement to either the transfer resource provider or a third-party beneficiary and therefore it does not meet the requirements of a performance obligation. | Editorials |
| Identifying the Revenue Transaction and the Existence of a Binding Arrangement | | | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| Application of guidance: practical expedients for revenue with BAs | ED 70.AG3, <i>Moved location.</i> <i>Previously under "Objective"</i> | An entity shall consider the terms of the binding arrangement and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to binding arrangements with similar characteristics and in similar circumstances. | |
| | ED 70.AG4, <i>Moved location.</i> <i>Previously under "Objective"</i> | This [draft] Standard specifies the accounting for an individual binding arrangement with a purchaser that includes performance obligations . However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of binding arrangements (or performance compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual binding arrangements (or performance compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio. | |
| BA | Binding Arrangement | | |
| | ED 70.AG7, <i>Board decision</i> | The [draft] Standard is underpinned by the definition of a binding arrangement, being A binding arrangement, which is an arrangement that confers both enforceable rights and obligations on both the parties to the arrangement. In the public sector an arrangement is enforceable when the entity and the purchaser are both Each party in the binding arrangement is able to enforce their respective rights and obligations through legal or equivalent means conferred on them in the arrangement. | 21.03-A Editorials |
| BA: Enforceability concept | Enforceability of Revenue Transactions with a Binding Arrangement | | |
| | ED 71.AG10, ED 70.AG7, ED 70.AG12, <i>Board decision</i> | To be within the scope of this [draft] Standard The interdependent rights and obligations in these a binding arrangements must be enforceable. Enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce their rights and obligations. The entity's assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement. | 21.03-B 21.04-F 21.06-C 21.06-E Editorials |
| | ED 71.AG11, ED 71.AG12, ED 71.AG13, ED 70.AG8, | Since binding arrangements and enforcement of such arrangements can arise from various mechanisms, an entity should objectively assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. In some jurisdictions, 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 | 21.03-C 21.06-F Editorials |

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| | <i>ED 70.AG9, Board decision</i> | equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer resource provider / purchaser to obligate the entity to complete the agreed obligation or be subject to remedies for non-performance non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient entity to obligate the transfer resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the binding arrangement. | |
| | <i>ED 71.AG14, EG 70.AG10, Board decision</i> | In the public sector, an arrangement is enforceable when each of the entity and the purchaser involved parties are both is able to enforce their respective rights and obligations. through legal or equivalent means. Enforceability of a binding arrangement can arise from various mechanisms. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes: (a) Distinct Clearly specified rights and obligations for both purchaser and entity (resource recipient) each involved party; and (b) Remedies for non-performance non-completion by the entity each involved party which can be enforced by the purchaser through legal or equivalent means through the identified enforcement mechanisms. | 21.03-B Editorials |
| | <i>Board decision</i> | When an entity assesses the enforceability of a binding arrangement, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their obligation(s) in the binding arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other involved parties accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement. | 21.06-D Editorials |
| | <i>ED 71.AG17, ED 70.AG16, Board decision</i> | Legal Enforceability arises from the compulsion by a legal system, comprising including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the binding arrangement) or compliance with a binding arrangement is determined based on the principles set out in the laws and/or regulations of a jurisdiction, which through equivalent means | 21.06-F |

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| | | (laws and regulations, includes including legislation, executive authority, cabinet or ministerial directives, as well as judicial rulings and case law precedence). | |
| | ED 71.AG18, ED 70.AG17 | Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to transfer goods or services satisfy the stated obligations in the arrangement. | |
| | ED 71.AG20, ED 70.AG13, ED 70.AG19, Board decision | Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet or ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to transfer goods or services satisfy the stated obligations in the arrangement may be enforceable. The key determining factor is that the purchaser each party must be able to enforce both the promises made in the entity's rights and obligations conferred on them in the binding arrangement. The purchaser Each party must have the ability and authority to compel the entity other party or parties to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled satisfied. | 21.06-D |
| | ED 71.AG19, ED 70.AG18 | Sovereign rights are the 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 sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of performance obligations by an entity, this may result in a valid enforcement mechanism. | |
| | ED 71.AG21, ED 70.AG20 | An entity may feel compelled to deliver on the performance obligations in a binding arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this (draft) Standard because there is no present compliance obligation on the purchaser other party to provide such funding. However, if the entity was presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in funding if other binding arrangements are breached, then the reduction in funding could be considered a valid enforcement mechanism. | Editorials |
| | ED 71.AG22, ED 70.AG21 | When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply a judgment based on the facts and circumstances. Key factors that may indicate the purchaser resource provider would reduce future funding in the event of a breach of promises made in another binding | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | | arrangement are the purchaser resource provider's ability to reduce future funding and its past history of doing so. | |
| | ED 71.AG23, ED 70.AG23 | A statement of intent or public announcement by a purchaser resource provider (e.g., government) 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 purchaser resource provider and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> . | |
| | ED 70.AG24, <i>Board decision</i> | In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with a purchaser resource provider indicates that the purchaser resource provider never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and may indicate that such terms do not in substance hold the other entity accountable and therefore the arrangement is not considered enforceable. However, if the entity has no experience with the purchaser resource provider, or has not previously breached any terms that would prompt the purchaser resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the purchaser resource provider would enforce the terms, and therefore the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable for the satisfying the rights and obligations they agreed to in the binding arrangement. | 21.03-E Editorials |
| BA: Enforceability concept, appropriations | | Enforceability of Revenue Transactions Subject to Appropriations | |
| | <i>Board decision</i> | In some jurisdictions, appropriations may be included in arrangements as an explicit term or condition (either in writing, orally, or implied through customary practices). Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the resource provider (which would be similar in substance to a unilateral termination clause without penalty). Appropriations on their own do not prove nor refute the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement. | 21.03-E |


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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | ED 71.AG28 | An appropriation is defined in IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> , as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a transaction arising from a binding arrangement for a transaction without performance obligations may specify that any future transfer is subject to the appropriation being authorized. | 21.03-A |
| | ED 71.AG29 | In accordance with paragraphs 36-37, a transfer resource provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer recipient entity considers whether, in substance, over form in determining whether the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient entity has control of those resources to require the resource provider to transfer the resources or, if the resource provider fails to do so, enable the entity to impose consequences on the resource provider, prior to the appropriation being authorized. | 21.03-E |
| | ED 71.AG30 | In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example: <ul style="list-style-type: none"> (a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a transfer resource provider; (b) The exercise of that authority has occurred. In essence, a decision has been made by the transfer resource provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and (c) The authority to pay is evidenced by the authorization of an appropriation. | |
| | ED 71.AG31 | The enabling authority together with the exercise of that authority may be sufficient for a transfer recipient an entity to conclude that it has an enforceable right to resources in the arrangement to require the resource provider to transfer the resources or, if the resource provider fails to do so, to impose consequences on the resource provider prior to the authorization of the appropriation. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer recipient recognizes an asset prior to the appropriation being authorized. | 21.03-E |
| | ED 71.AG32 | In other cases, the authorization of the appropriation may need to be considered in establishing when a transfer resource provider has lost its discretion to avoid proceeding with the transfer. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer recipient shall not recognize an asset prior to the appropriation being authorized. | 21.03-E |

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| BA: Forms | ED 71.AG15, ED 70.AG11 | Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). 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. | |
| BA: parties | Parties in a Binding Arrangement | | |
| | <i>Board decision</i> | Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations. | 21.03-E Editorials |
| | ED 70.AG25, <i>Clarifications based on DG's standardized terminology decisions</i> | For public sector specific transactions with binding arrangements, the purchaser resource provider is the party that pays provides consideration to the entity for the goods and services set out in a binding arrangement but is not necessarily the party that receives those goods and services. The resource provider may provide consideration for the entity to: <ul style="list-style-type: none"> (a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return; (b) Transfer distinct goods or services back to the resource provider. In these cases, the resource provider is a purchaser, as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or (c) Transfer distinct goods or services to a third-party beneficiary. In the case of a three-party arrangements (discussed below), the purchaser resource provider has a binding arrangement with and pays provides consideration to the entity to deliver goods and services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over the age of 55, the central government is the purchaser and the citizens are the third-party beneficiaries. The purchaser resource provider can enforce delivery of those goods and services or seek recourse from the entity if the promises in the binding arrangement are not fulfilled satisfied. | 21.10-A Editorials |
| Description – compliance | ED 71.AG16, ED 70.AG13, | That is, at a minimum, the entity receiving the consideration (transfer resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the purchaser or | 21.03-E |

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| obligation (at least one in each BA) | ED 70.AG14, Board decision | <p>transfer resource provider) must be able to enforce fulfillment satisfaction of the obligations assumed by the entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:</p>  | |
| | ED 70.AG22, Board decision | <p>Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the entity to deliver goods and services because they are not a party parties to the binding arrangement. However, for these three multi-party arrangements to be within the scope of this [draft] Standard the purchaser resource provider must have the ability to force the entity to deliver distinct goods and services to the specified third-party beneficiaries. In these three multi-party arrangements the resource recipient (reporting entity (resource recipient) is not an agent of the purchaser resource provider because the resource recipient entity gains control of the consideration from the purchaser resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram.</p> | 21.03-E Editorials |

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| | | | |
| | ED 70.AG15, Board decision | While it is important that the entity receiving the funding can enforce payment of those funds, when they have a right to the funds, for the purposes of this [draft] Standard it is In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the purchaser's resource provider's ability to compel the entity to deliver goods and services that creates the basis for the five-step revenue recognition model provided for in this [draft] Standard satisfy its obligations. | 21.03-B |
| | ED 71.AG10, Board decision | Some revenue transactions within the scope of this [draft] Standard may be enforceable, but only create enforceable rights or obligations for one party in the arrangement. These transactions do not satisfy the requirements meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability. | 21.06-A |
| Revenue with Binding Arrangements: Criteria for the Five-Step Model | | | |
| 5-step model | Economic Substance | | |
| criterion: economic substance | ED 70.AG26 | An entity shall determine whether a transaction with a binding arrangement has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if: | |

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| | | <p>(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred: or</p> <p>(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and</p> <p>(c) The differences in (a) and (b) are significant relative to the fair value of the assets exchanged.</p> | |
| | ED 70.AG27 | For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The results of these analyses may be clear without an entity having to perform detailed calculations. | |
| | ED 70.AG28 | For the purposes of this draft Standard, economic substance includes commercial substance. | |
| 5-step model criterion: probability of collection | Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 8(e) | | |
| | Board decision | An entity should apply judgment in considering the facts and circumstances upon entering into a binding arrangement to assess the resource provider's ability and intent at inception to pay the expected consideration at a future date. | 21.03-E |
| | Board decision | An entity should assess collectability at the inception of the binding arrangement based on the entity's best estimate of the risks associated with the resource provider in the binding arrangement. This initial assessment may differ from actual consideration collected subsequently as a result of changes in conditions or expectations. Such changes would be reflected as either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception). | 21.03-E |
| | ED 70.AG31 | A price concession may be provided as part of the binding arrangement. A price concession is generally known by the involved parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the involved parties. This draft Standard typically measures revenue based on the transaction price consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, credits, price concessions, incentives, performance bonuses, penalties and similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the purchase resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 46 and 51(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 8(e). | 21.03-E |

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| | ED 70.AG29 | In some binding arrangements, entities are compelled by legislation to provide certain goods and services (such as water and electricity) to all citizens, regardless of whether the citizens have the intention or ability to pay for those goods or services. | |
| | ED 70.AG29, ED 70.AG30 | In these circumstances, When payment of the consideration, less any price concession, is not probable for delivery of the good or service to certain groups of citizens, the criterion for identifying a binding revenue arrangement in paragraph 8(e) is not met. In these circumstances, For goods and services provided to citizens in a binding arrangement in exchange for agreed amounts of consideration, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraphs 13 - 15 of this (draft) Standard. | |
| Revenue with Binding Arrangements: Identifying Compliance Obligations | | | |
| Step B: with BA – Compliance obligations, use of resources | <i>Promises to Use Resources</i> ED 71.AG8, ED 81 resources guidance, Board decision | A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for a distinct good or service or transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary. The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged in through the binding arrangement. The promise to use resources results in other resources (i.e., distinct goods or services that provide rights to economic benefit or service potential, or both) for either the reporting entity or another external party (either the purchaser or to a third-party beneficiary. See paragraphs xx-xx ["Promises to Use Resources for Another Party" section] for further guidance). The entity may also receive the benefit of the good or service but directs the use of the benefit to other parties. | 21.12-A 21.12-B Editorials |
| | ED 70.AG32, ED 70.AG33 | This Standard requires an entity to appropriately identify any performance compliance obligations when it enters into a binding arrangement (Step B of the revenue recognition model), and then recognize revenue as or when it satisfies each of the identified compliance obligations in compliance with the terms and conditions of the binding arrangement. | Editorials |
| | ED 70.AG35, ED 70.AG39, Board decision | In the public sector, identifying performance compliance obligations may require significant judgment. A necessary condition for identifying a performance compliance obligation is that the promise must be sufficiently specific to be able to determine when that performance compliance obligation is fulfilled satisfied. An entity considers the following factors in identifying performance obligations which are whether a promise is sufficiently specific an entity considers the following factors: (a) The nature or type of the promise to use resources; | 21.03-G 21.03-H 21.12-A 21.12-B |

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| | | <p>(b) The cost or value of the distinct goods or services from the promise to use resources;</p> <p>(c) The quantity of the distinct goods or services from the promise to use resources; and</p> <p>(d) The period over which the promise to use resources occurs.</p> | |
| | ED 70.AG36, ED 70.AG37 | <p>The existence of performance indicators in relation to the delivery of goods and services promises may, but does not necessarily, indicate the existence of a performance compliance obligation as defined in the Standard. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator measure of performance and therefore not a performance compliance obligation.</p> | Editorials |
| | <i>Promises to Use Resources Internally</i> | | |
| | ED 71.15, ED 71.48 | <p>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 transfer recipient will act or perform in a particular way. In many instances, assets are transferred to public sector entities in transactions without performance obligations pursuant to binding arrangements that impose requirements that they be used for particular purposes. In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally for a distinct good or service to achieve specific service delivery objectives. Examples of transfers, established by resources provided to a public sector entity in a binding arrangement that require a present obligation be satisfied, may include:</p> <p>(a) Transfers from national governments to provincial, state or local governments;</p> <p>(b) Transfers from state/provincial governments to local governments;</p> <p>(c) Transfers from governments to other public sector entities;</p> <p>(d) Transfers 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</p> <p>(e) Transfers from donor agencies to governments or other public sector entities.</p> <p>Where binding arrangements with external parties impose terms on the use of transferred assets by the transfer recipient, a present obligation exists.</p> | Editorials |
| | ED 71.47 | <p>A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The</p> | 21.06-D Editorials |

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| | | compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, They or may also arise from the normal operating environment, such as the recognition of advance receipts. | |
| Step B: with BA – Compliance obligations, exchange-type | <i>Promises to Use Resources for Another Party</i> | | |
| | ED 71.AG7, ED 81 resource guidance Board decision | In some instances, an entity's promise in a binding arrangement requires the entity to use resources in to transfer a distinct good or service to an external party or parties (i.e., to the purchaser (resource provider) or a third-party beneficiary) identified in the binding arrangement, in compliance with the terms and conditions of the binding arrangement. In practice, a transfer recipient an entity will consider whether it maintains control of the resources provided by the transfer provider or the resources provided by the transfer provider to the transfer recipient are converted into a good and/or service and are required to be transferred to the transfer resource provider, or to a third-party beneficiary. In this case, the resource provider in such binding arrangements is effectively a purchaser of distinct goods or services from the entity. | 21.03-G 21.03-H 21.12-A 21.12-B Editorials |
| | ED 70.AG34, ED 70.AG40 Board decision | A key feature distinguishing an entity's promise to transfer a distinct good or service from other promises in the binding arrangement is the clear identification of an external party receiving the distinct goods or services. A binding arrangement which imposes an obligation on an entity to transfer a distinct good or service to a specified external party (i.e., the purchaser or a specified third-party beneficiary) generally provides a clear indicator of specificity and transfer of control of the economic benefits and service potential of the resources from the entity to the external party. | 21.03-G 21.03-H Editorials |
| | ED 70.25, Board decision | Depending on the binding arrangement, promised goods or services promised in a compliance obligation may include, but are not limited to, the following: (a) Provision of goods produced by an entity (for example, inventory such as publications or municipal water provided for a fee); (b) Goods purchased by an entity provided to citizens (for example, waste collection bins); (c) Resale of rights to goods or services purchased by an entity (for example, an emission allowances resold by an entity acting as a principal, see ED 70 paragraphs AG77–AG85); (d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose); (e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities); | 21.03-G Editorials |

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| | | <p>(f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);</p> <p>(g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see ED 70 paragraphs AG77–AG85);</p> <p>(h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);</p> <p>(i) Constructing, manufacturing or developing an asset on behalf of a purchaser; (for example, a government works department building a recreational facility for another municipality);</p> <p>(j) Granting licenses (see ED 70 paragraphs AG100–AG113); and</p> <p>(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see ED 70 paragraphs AG86–AG90)).</p> | |
| | ED 70.AG41, ED 70.AG42 | <p>An entity earns and recognizes revenue when it satisfies a performance compliance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services. ED 70 Paragraph 7 provides indicators of control, which include:</p> <p>(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and</p> <p>(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.</p> | Editorials |
| Step B: with BA – Distinguish individual compliance obligations, exchange-type | Identifying Distinct Promises to Use Resources for Another Party | | |
| | Board decision | Promises to use resources to transfer distinct goods or services to an external party are generally have a greater degree of specificity. An entity is required to clearly identify such compliance obligations in order to complete a more objective analysis and precise account for the recognition and measurement of revenue from these transactions. | 21.03-H Editorials |
| | ED 70.AG38, ED 81 resource guidance, | In cases where a binding arrangement includes a compliance obligation to transfer distinct goods or services to a purchaser or third-party beneficiary, a good or service promised in a binding arrangement is distinct if both of the following two criteria are both met (see ED 70 paragraph 26): | 21.12-C 21.12-D Editorials |

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| | <i>Board decision</i> | <p>(a) The promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential either on its own or together with other resources that are readily available to the party receiving the good or service (i.e., the good or service is capable of being distinct); and</p> <p>(b) The entity's promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).</p> | |
| | <i>ED 70.26, ED 81 resource guidance, Board decision</i> | In binding arrangements where the entity is required to use resources to transfer distinct goods or services to the purchaser or a third-party beneficiary, a purchaser the promise to use resources to transfer goods or services can generate other resources that provides rights to the economic benefits and/or service potential from the good or service transferred to a third-party beneficiary when the entity's transfer of the good or service to party receiving the goods or services to the third-party beneficiary contributes to the purchaser achieving its service delivery objectives. | 21.12-C 21.12-D |
| | <i>ED 70.AG39, Board decision</i> | Compliance obligations that require the promised transfer of the promised goods and services to the purchaser or a third-party beneficiary in a promise need to be are separately identifiable (i.e., distinct) but the promises in a binding arrangement must also be sufficiently specific from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that performance obligation promise is fulfilled satisfied. Therefore, it is possible to have several performance compliance obligations in one binding arrangement. | 21.03-G |
| Step B: with BA – Executory contract principle – no item is recognized where an arrangement is wholly unperformed | Initial Recognition of Revenue Transactions with a Binding Arrangement | | |
| | <i>Board decision</i> | <p>In accordance with paragraph XX, when a binding arrangement is wholly unperformed, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. An entity's rights and obligations under a wholly unperformed binding arrangement are interdependent and cannot be separated. The combined rights and obligations constitute a single asset or liability that is measured at zero.</p> <p>Individual rights and obligations are recognized as items (assets, liabilities and expenses depending on their nature) only as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs XX–XX.</p> <p>Where parts of the binding arrangement remain equally unperformed, the entity shall not recognize any asset, liability or revenue for the equally unperformed parts of the binding arrangement. Such equally</p> | 21.04-A |

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| | | unperformed parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero. | |
| Step B: with BA – Existence and recognition of a liability | Existence and Recognition of a Liability | | |
| | <i>Board decision, ED 81</i> | An entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the entity for a transfer of resources that results from past events. | 21.06-G |
| | | <i>A Present Obligation</i> | |
| | <i>Board decision</i> | A present obligation may be legally binding or non-legally binding. A compliance obligation is a legally binding present obligation, in revenue transactions with binding arrangements, to use resources in compliance with the terms of the binding arrangement. All binding arrangements include at least one compliance obligation. | 21.03-A 21.12-E |
| | | <i>As a Result of Past Events</i> | |
| | <i>ED 71.51, ED 70.AG92, Board decision</i> | Public sector entities may willingly enter into binding arrangements in order to deliver their service objectives and obtain assets from governments, other entities, or by purchasing or producing them. A liability may exist as a result of past events, specifically when: (a) The entity enters into a binding arrangement with one or more parties; and (b) The resource provider has provided promised resources before the entity satisfies the associated compliance obligation(s) (i.e., the entity has received a prepayment and the binding arrangement is partially satisfied). Transactions or events expected to occur in the future do not in themselves give rise to present compliance obligations. | 21.03-J 21.03-K 21.09-A 21.09-C |
| | | <i>A Transfer of Resources</i> | |
| | <i>ED 71.16, Board decision [Proposed deletion of ED 71.52]</i> | The enforceability of a binding arrangement provides each party in the arrangement the ability to hold the parties accountable. to either satisfy their compliance obligations or face consequences if they do not satisfy their compliance obligations. When the entity received resources after entering into a binding arrangement as a willing party, a liability exists if the consequence of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party (e.g., to the resource provider). Examples of consequences of non-compliance requiring a transfer of resources include, but are not limited to, repaying the resources to the transfer resource provider or incurring some other form of penalty. Such a consequence requires a transfer of resources that the resource recipient would not otherwise have had to transfer (i.e., incremental) had it not willingly entered the binding arrangement and received | 21.03-J 21.03-K 21.09-A 21.09-C |

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| | | resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events). | |
| Revenue with Binding Arrangements: Satisfaction of Compliance Obligations | | | |
| Step C: with BA – Satisfy non-exchange-type compliance obligation | Compliance Obligations to Acquire Goods or Services for Internal Use | | |
| | <i>Based on ED 70.AG43, Board decision</i> | ED 70 Paragraph 34 provides that a performance compliance obligation is satisfied over time if one of the following criteria is met: (a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see ED 70 paragraphs AG44–AG45 [see non-exchange adaptation below]); (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser resource provider or third-party beneficiary entity controls as the asset is created or enhanced (see ED 70 paragraph AG46 [see non-exchange adaptation below]); or (c) The entity's performance does not create an asset with an alternative use to the entity (see ED 70 paragraph 35) and the entity has an enforceable right to payment consideration for performance completed to date (see ED 70 paragraph 36). | BA acc model |
| | | <i>Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Entity's Performance (see paragraph 34(a))</i> | |
| | <i>Based on ED 70.AG44, Board decision</i> | For some types of performance compliance obligations, the assessment of whether a purchaser the entity receives the economic benefit or service potential provided by the entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service daily volunteer services) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance by the entity as it satisfies its compliance obligation can be readily identified. | BA acc model |
| | <i>Based on ED 70.AG45, Board decision</i> | For other types of performance compliance obligations, an entity may not be able to readily identify whether a purchaser the entity simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a performance compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfill satisfy the remaining performance | BA acc model |

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| | | <p>compliance obligation to the purchaser. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:</p> <ul style="list-style-type: none"> (a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining performance compliance obligation to another entity; and (b) Presume that another entity fulfilling satisfying the remainder of the performance compliance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance compliance obligation were to transfer to another entity. | |
| | | <i>Purchaser Entity Controls the Asset as it is Created or Enhanced (see paragraph 34(b))</i> | |
| | Based on ED 70.AG46, Board decision | In determining whether a purchaser the entity controls an asset as it is created or enhanced in accordance with ED 70 paragraph 34(b), an entity shall apply the requirements for control in ED 70 paragraphs 30–33 and 37. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible. | BA acc model |
| | | <i>Entity's Performance Satisfaction does not Create an Asset with an Alternative Use (see paragraph 34(c))</i> | |
| | Based on ED 70.AG47, Board decision | In assessing whether an asset has an alternative use to an entity in accordance with ED 70 paragraphs 34(c) and 35, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different purchaser entity. The possibility of the binding arrangement with the purchaser resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use. | BA acc model |
| | Based on ED 70.AG48, Board decision | A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a purchaser resource provider could enforce its rights to the promised asset if the entity sought to direct the asset for another use that would not be in compliance with the terms of the binding arrangement. | BA acc model |
| | Based on ED 70.AG49, Board decision | A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that | BA acc model |

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| | | either have design specifications that are unique to a purchaser or are located in remote areas to the terms of the binding arrangement. | |
| | | <i>Right to Payment Consideration for Performance Completed to Date (see paragraph 34(c))</i> | |
| | Based on ED 70.AG50, Board decision | <p>In accordance with ED 70 paragraphs 34(c) and 36, an entity has a right to payment consideration for performance compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance compliance obligations completed to date in the event that the purchaser resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance compliance obligations completed to date would be an amount that approximates the total cost of the goods or services transferred acquired to date for no charge or for a nominal charge, or the price of the goods or services transferred acquired to date (for example, recovery of the costs incurred by an entity in satisfying the performance compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:</p> <p>(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the purchaser resource provider (or another party); or</p> <p>(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.</p> | BA acc model |
| | Based on ED 70.AG51, Board decision | An entity's right to payment consideration for performance compliance obligations completed to date need not be a present unconditional right to payment consideration. In many cases, an entity will have an unconditional right to payment consideration only at an agreed-upon milestone or upon complete satisfaction of the performance compliance obligation. In assessing whether it has a right to payment consideration for performance compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain payment consideration for performance compliance obligations completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised. | BA acc model |

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| | Based on ED 70.AG52, Board decision | In some binding arrangements, a purchaser resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the purchaser resource provider might not have any right to terminate the binding arrangement. If a purchaser resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a purchaser resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer acquire to the purchaser the goods or services promised in compliance with the binding arrangement and require the purchaser resource provider to pay the consideration promised in exchange for those goods or services satisfied compliance obligations. In those circumstances, an entity has a right to payment consideration for performance compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the purchaser resource provider to perform its obligations (which include paying the promised consideration). | BA acc model |
| | Based on ED 70.AG53, Board decision | In assessing the existence and enforceability of a right to payment consideration for performance compliance obligations completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether: <ul style="list-style-type: none"> (a) Legislation, administrative practice or legal precedent confers upon the entity a right to payment consideration for performance to date even though that right is not specified in the binding arrangement with the purchaser resource provider; (b) Relevant legal precedent indicates that similar rights to payment consideration for performance completed to date in similar binding arrangements have no binding legal effect; or (c) An entity's customary practices of choosing not to enforce a right to payment consideration has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment consideration in similar binding arrangements, an entity would continue to have a right to payment consideration to date if, in the binding arrangement with the purchaser resource provider, its right to payment consideration for performance to date remains enforceable. | BA acc model |
| | ED 70.AG54, Board decision | The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to payment consideration for performance compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of | |

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| | | consideration that is payable by a purchaser resource provider, the payment schedule might not necessarily provide evidence of the entity's right to payment consideration for performance compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the purchaser resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement. | |
| Step C: with BA – Satisfy exchange-type compliance obligation | Performance Compliance Obligations to Transfer Goods or Services to Another Party Satisfied Over Time ED 70.AG43 | ED 70 Paragraph 34 provides that a performance compliance obligation is satisfied over time if one of the following criteria is met: (a) The purchaser (the resource provider in the binding arrangement) or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see ED 70 paragraphs AG44–AG45); (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see ED 70 paragraph AG46); or (c) The entity's performance does not create an asset with an alternative use to the entity (see ED 70 paragraphs AG47–AG49) and the entity has an enforceable right to payment consideration for performance completed to date (see ED 70 paragraphs AG50–AG54). | |
| | | <i>Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Entity's Performance (see paragraph 34(a))</i> | |
| | ED 70.AG44 | For some types of performance compliance obligations, the assessment of whether a purchaser resource provider receives the economic benefit or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified. | |
| | ED 70.AG45 | For other types of performance compliance obligations, an entity may not be able to readily identify whether a purchaser resource provider simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a performance compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfill satisfy | |

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| | | <p>the remaining performance compliance obligation to the purchaser resource provider. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:</p> <p>(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining performance compliance obligation to another entity; and</p> <p>(b) Presume that another entity fulfilling satisfying the remainder of the performance compliance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance compliance obligation were to transfer to another entity.</p> | |
| | | <i>Purchaser Resource Provider Controls the Asset as it is Created or Enhanced (see paragraph 34(b))</i> | |
| | ED 70.AG46 | In determining whether a purchaser resource provider controls an asset as it is created or enhanced in accordance with ED 70 paragraph 34(b), an entity shall apply the requirements for control in paragraphs ED 70 30–33 and 37. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible. | |
| | | <i>Entity's Performance Satisfaction does not Create an Asset with an Alternative Use (see paragraph 34(c))</i> | |
| | ED 70.AG47 | In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 34(c) and 35, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different purchaser entity. The possibility of the binding arrangement with the purchaser resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use. | |
| | ED 70.AG48 | A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a purchaser resource provider could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another purchaser resource provider without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement. | |

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| | ED 70.AG49 | A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a purchaser resource provider or are located in remote areas. | |
| | | <i>Right to Payment Consideration for Performance Completed to Date (see paragraph 34(c))</i> | |
| | ED 70.AG50 | <p>In accordance with ED 70 paragraphs 34(c) and 36, an entity has a right to payment consideration for performance compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the purchaser resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance compliance obligations completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the performance compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:</p> <ul style="list-style-type: none"> (a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the purchaser resource provider (or another party); or (b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements. | |
| | ED 70.AG52 | In some binding arrangements, a purchaser resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the purchaser resource provider might not have any right to terminate the binding arrangement. If a purchaser resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a purchaser resource provider fails to perform its obligations as promised), the binding | |

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| | | arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser or third-party beneficiary the goods or services promised in the binding arrangement and require the purchaser resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to payment consideration for performance compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the purchaser resource provider to perform its obligations (which include paying the promised consideration). | |
| | <i>Proposed reference to reduce repetition</i> | An entity should also consider paragraphs XX, XX and XX [see ED 70.AG51, AG53-AG54 above] in assessing its right to consideration for performance completed to date related to compliance obligations that require a transfer of goods or services to another party. | BA acc model |
| Step C: Satisfaction of Compliance Obligations – Methods | Methods for Measuring Progress towards Complete Satisfaction of a Performance Compliance Obligations | | |
| | ED 70.AG55 | Methods that can be used to measure an entity's progress towards complete satisfaction of a performance compliance obligation satisfied over time include the following: (a) Output methods (see paragraphs AG56–AG58); and (b) Input methods (see paragraphs AG59–AG60). | |
| | | Output Methods | |
| | ED 70.AG56, <i>Board decision</i> | Output methods recognize revenue on the basis of direct measurements of the value to the purchaser of the goods or services transferred entity receiving the outputs from the promises satisfied to date relative to the distinct goods or services from the remaining goods or services promised promises under the binding arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. | BA model 21.12-F |
| | ED 71.18, ED 71.19, ED 71.AG27, <i>Board decision</i> | A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the transfer resource provider can compel the transfer recipient entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a transfer resource provider provides funding to a government science agency (transfer recipient) to conduct research and development into a plant-based meat substitute. 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 resource provider requires the government science agency to report back at each stage. Each of these stages | 21.06-D 21.12-F 21.12-G |

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| | | constitutes a specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to deliver the specified activity, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress). | |
| | ED 70.AG56, Board decision | When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance compliance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the purchaser promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the purchaser resource provider that are not included in the measurement of the output. | BA model |
| | ED 70.AG57 | As a practical expedient for compliance obligations where the entity is required to transfer a distinct good or service to an external party, if an entity has a right to consideration from a purchaser resource provider in an amount that corresponds directly with the value to the purchaser resource provider of the entity's performance compliance obligations completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice. | Editorials |
| | ED 70.AG58 | The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary. | |
| | | Input Methods | |
| | ED 70.AG59, Board decision | Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance compliance obligation (for example, resources consumed, labor hours expended, costs eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance compliance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognize revenue on a straight-line basis. | 21.12-F |

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| | ED 71.20, ED 71.21, ED 71.AG25, Board decision | An eligible expenditure as is an outflow transfer of resources incurred in accordance with the requirements set out in a binding arrangement. A binding arrangement may require an entity to use resources for a particular purpose, such as to further the transfer recipient's entity's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable specified activity. 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 that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to incur the eligible expenditure, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of penalty redress). | 21.06-D 21.06-G BA model 21.12-F 21.12-G |
| | ED 71.AG26 | The transfer resource provider needs to be able to confirm that all expenditure incurred was eligible. And the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the transfer recipient entity needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures was incurred by the transfer recipient entity and for the purpose intended directly related to the entity's satisfaction of the promises in the specified manner. | 21.12-F 21.12-G |
| | ED 70.AG60 | A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the transfer of control of goods or services to a purchaser satisfaction of its compliance obligation. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in ED 70 paragraph 38, do not depict the entity's performance in transferring control of goods or services to the purchaser satisfying its compliance obligations. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances: (a) When a cost incurred does not contribute to an entity's progress in satisfying the performance compliance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the performance compliance obligation). | BA model |

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| | | <p>(b) When a cost incurred is not proportionate to the entity's progress in satisfying the performance compliance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a performance compliance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:</p> <ul style="list-style-type: none"> (i) The good is not distinct; (ii) The purchaser party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good; (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance compliance obligation; and (iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG77–AG85). | |
| Measurement of Revenue from a Transaction with a Binding Arrangement | | | |
| Step D: with BA – Measurement | Step D: Determining the Transaction Price Consideration (see paragraphs 72 to 89) ED 71.AG33, ED 70.AG64 | <p>An entity shall apply the requirements in paragraphs 60-71 [ED 70 paragraphs 46–71] (including the requirements for constraining measurement in paragraphs 69-70 [ED 70 paragraphs 55–57]) to determine the amount of revenue/consideration to which the entity expects to be entitled. In transactions where the binding arrangement requires an entity to transfer distinct goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary), this amount would excluding exclude the products expected to be returned. For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue when it transfers products to purchasers or third party beneficiaries but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled for satisfying its compliance obligations in the binding arrangement in order to determine whether the threshold for measurement has been achieved and make a corresponding change to the transaction price consideration and, therefore, in the amount of revenue recognized.</p> | |
| Right of Return | | Sale with a Right of Return for a Transfer of Goods or Services to Another Party | |

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| | ED 70.AG61 | In some binding arrangements, an entity transfers control of a product to a purchaser resource provider and also grants the purchaser resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following: <ul style="list-style-type: none"> (a) A full or partial refund of any consideration paid; (b) A credit that can be applied against amounts owed, or that will be owed, to the entity; and (c) Another product in exchange. | |
| | ED 70.AG62 | To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following: <ul style="list-style-type: none"> (a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned); (b) A refund liability; and (c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from purchasers resource providers on settling the refund liability. | |
| | ED 70.AG63 | An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance compliance obligation in addition to the obligation to provide a refund. | |
| | ED 70.AG65 | An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue). | |
| | ED 70.AG66 | An asset recognized for an entity's right to recover products from a purchaser resource provider on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability. | |
| | ED 70.AG67 | Exchanges by purchasers resource providers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this [draft] Standard. | |
| | ED 70.AG68 | Binding arrangements in which a purchaser resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in ED 70 paragraphs AG71–AG76. | |

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| Components | | Transactions with Components within the Scope of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations | |
| | ED 70.AG69, ED 70.AG70 | [Deleted as a result of Board decision to combine the revenue EDs into a single draft IPSAS] | 21.03-M 21.10-A |
| Step D: with BA – Measurement consideration payable | | Consideration Payable to a Purchaser Resource Provider for a Transfer of Goods or Services to Another Party | |
| | ED 70.69 | Consideration payable to a purchaser resource provider includes cash amounts that an entity pays, or expects to pay, to the purchaser resource provider (or to other parties that purchase the entity's goods or services from the purchaser resource provider). Consideration payable to a purchaser resource provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the purchaser resource provider). An entity shall account for consideration payable to a purchaser resource provider as a reduction of the transaction price consideration and, therefore, of revenue unless the payment to the purchaser resource provider is in exchange for a distinct good or service (as described in ED 70 paragraphs 25–29) that the purchaser resource provider transfers to the entity. If the consideration payable to a purchaser resource provider includes a variable amount, an entity shall estimate the transaction price consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with ED 70 paragraphs 49–57. | |
| | ED 70.70 | If consideration payable to a purchaser resource provider is a payment for a distinct good or service from the purchaser resource provider, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the purchaser resource provider exceeds the fair value of the distinct good or service that the entity receives from the purchaser resource provider, then the entity shall account for such an excess as a reduction of the transaction price consideration. If the entity cannot reasonably estimate the fair value of the good or service received from the purchaser resource provider, it shall account for all of the consideration payable to the purchaser resource provider as a reduction of the transaction price consideration. | |
| | ED 70.71 | Accordingly, if consideration payable to a purchaser resource provider is accounted for as a reduction of the transaction price consideration, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs: | |

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| | | <p>(a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and</p> <p>(b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.</p> | |
| Step E: with BA – Measurement allocation | Step E: Allocating the Transaction Price Consideration to Performance Compliance Obligations (see paragraphs 72 to 89) | | |
| Step E – stand-alone price | | <i>Determination of Stand-alone Price Value</i> | |
| | ED 70.AG91 | In the public sector, the determination of a stand-alone price value for a performance compliance obligation in accordance with ED 70 paragraph 76 may be challenging, particularly in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone price value is estimated based on the amount the purchaser resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone price value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone price value using the expected cost approach, as noted in ED 70 paragraph 78(b). | |
| Step E: with BA – Measurement allocate discount | | <i>Allocation of a Discount for a Transfer of Goods or Services to Another Party</i> | |
| | ED 70.80 | A purchaser resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone prices values of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with ED 70 paragraph 81 that the entire discount relates to only one or more, but not all, performance compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all performance compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price consideration to each performance compliance obligation on the basis of the relative stand-alone prices values of the underlying distinct goods or services. | |
| | ED 70.81 | An entity shall allocate a discount entirely to one or more, but not all, performance compliance obligations in the binding arrangement if all of the following criteria are met: <p>(a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;</p> | |

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| | | <p>(b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone prices values of the goods or services in each bundle; and</p> <p>(c) The discount attributable to each bundle of goods or services described in paragraph 81(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the performance compliance obligation (or performance compliance obligations) to which the entire discount in the binding arrangement belongs.</p> | |
| | ED 70.82 | If a discount is allocated entirely to one or more performance compliance obligations in the binding arrangement in accordance with ED 70 paragraph 81, an entity shall allocate the discount before using the residual approach to estimate the stand-alone price value of a good or service in accordance with ED 70 paragraph 78(c). | |
| Step E: with BA – Measurement warranties | | <i>Warranties for Goods or Services Transferred to Another Party</i> | |
| | ED 70.AG71 | In binding arrangements where the entity provides distinct goods or services to another party, it is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a purchaser resource provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the purchaser resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications. | |
| | ED 70.AG72 | If a purchaser resource provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a performance compliance obligation in accordance with ED 70 paragraphs 21–29 and allocate a portion of the transaction price consideration to that performance compliance obligation in accordance with ED 70 paragraphs 72–85. | |
| | ED 70.AG73 | If a purchaser resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent</i> | |

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| | | Assets unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications. | |
| | ED 70.AG74 | <p>In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:</p> <ul style="list-style-type: none"> (a) Whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance compliance obligation because such requirements typically exist to protect purchaser resource provider from the risk of purchasing defective products. (b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a performance compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications. (c) The nature of the tasks that the entity promises to perform—if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance compliance obligation. | |
| | ED 70.AG75 | If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a performance compliance obligation. Therefore, an entity shall allocate the transaction price consideration to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance compliance obligation. | |
| | ED 70.AG76 | A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance compliance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centers and hospitals in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser or third-party beneficiary using a product for its intended purpose. Similarly, an entity's promise to indemnify the purchaser | |

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| | | resource provider for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a performance compliance obligation. The entity shall account for such obligations in accordance with IPSAS 19. | |
| Principal vs Agent | Principal versus Agent Considerations | | |
| | ED 70.AG77 | When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a performance compliance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser resource provider. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see ED 70 paragraphs 26–29). If a binding arrangement with a purchaser resource provider includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others. | |
| | ED 70.AG78 | To determine the nature of its promise (as described in ED 70 paragraph AG77), the entity shall: (a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see ED 70 paragraph 25)); and (b) Assess whether it controls (as described in ED 70 paragraph 32) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. | |
| | ED 70.AG79 | An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its performance compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance compliance obligation on its behalf. | |
| | ED 70.AG80 | When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following: (a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary. | |

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| | | <p>(b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.</p> <p>(c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if an entity provides a significant service of integrating goods or services (see ED 70 paragraph 28(a)) provided by another party into the specified good or service for which the purchaser resource provider has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.</p> | |
| | ED 70.AG81 | When (or as) an entity that is a principal satisfies a performance compliance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred. | |
| | ED 70.AG82 | An entity is an agent if the entity's performance compliance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a performance compliance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party. | |
| | ED 70.AG83 | <p>Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see ED 70 paragraph AG79) include, but are not limited to, the following:</p> <p>(a) The entity is primarily responsible for fulfilling satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting purchaser resource provider specifications). If the entity is primarily responsible for fulfilling satisfying the promise to provide the</p> | |

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| | | <p>specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.</p> <p>(b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the purchaser resource provider (for example, if the purchaser resource provider has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a purchaser resource provider, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.</p> <p>(c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the purchaser resource provider pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.</p> | |
| | ED 70.AG84 | The indicators in ED 70 paragraph AG83 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements. | |
| | ED 70.AG85 | If another entity assumes the entity's performance compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the performance compliance obligation to transfer the specified good or service to the purchaser resource provider or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that performance compliance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a performance compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent). | |
| Additional g/s | Purchaser Resource Provider Options for Additional Goods or Services | | |

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| | ED 70.AG86 | Purchaser Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, purchaser resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services. | |
| | ED 70.AG87 | If, in a binding arrangement, an entity grants a purchaser resource provider the option to acquire additional goods or services, that option gives rise to a performance compliance obligation in the binding arrangement only if the option provides a material right to the purchaser resource provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of purchaser resource provider in that geographical area or market). If the option provides a material right to the purchaser resource provider, the purchaser resource provider in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires. | |
| | ED 70.AG88 | If a purchaser resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone price value for that good or service, that option does not provide the purchaser resource provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this [draft] Standard only when the purchaser resource provider exercises the option to purchase the additional goods or services. | |
| | ED 70.AG89 | ED 70 Paragraph 73 requires an entity to allocate the transaction price consideration to performance compliance obligations on a relative stand-alone price value basis. If the stand-alone price value for a purchaser's resource provider's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the purchaser resource provider would obtain when exercising the option, adjusted for both of the following: (a) Any discount that the purchaser resource provider could receive without exercising the option; and (b) The likelihood that the option will be exercised. | |
| | ED 70.AG90 | If a purchaser resource provider has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone price value of the option, allocate the transaction price consideration to the optional goods or services by reference to the goods or services expected to be provided and the | |

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| | | corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement. | |
| With BA: Step E – Resource Providers' Unexercised Rights | Purchasers' Resource Providers' Unexercised Rights | | |
| | ED 70.AG92 | In accordance with ED 70 paragraph 105, upon receipt of a prepayment from a purchaser resource provider, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its performance compliance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that its binding arrangement liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance the compliance obligation associated with the consideration previously received from the resource provider. | |
| | ED 70.AG93, Board decision | A purchaser's resource provider's non-refundable prepayment to an entity gives the purchaser resource provider a right to receive a good or service in the future (and obliges the entity to stand ready to transfer a good or service) have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, purchasers resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage. | 21.09-G |
| | ED 70.AG94 | If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the purchaser resource provider. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the purchaser resource provider exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in ED 70 paragraphs 55–57 on constraining estimates of variable consideration. | |
| | ED 70.AG95 | An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a purchaser's resource provider's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws. | |
| Non-ref upfront fees | Non-refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party | | |
| | ED 70.AG96 | In some binding arrangements, an entity charges a purchaser resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a health care membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies. | |

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| | ED 70.AG97 | To identify performance compliance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement, to fulfill satisfy the binding arrangement, that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see ED 70 paragraph 24). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the purchaser resource provider the option to renew the binding arrangement and that option provides the purchaser resource provider with a material right as described in paragraph AG87. | |
| | ED 70.AG98 | If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate performance compliance obligation in accordance with ED 70 paragraphs 21–29. | |
| | ED 70.AG99 | An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in ED 70 paragraph 24). If those setup activities do not satisfy a performance compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with ED 70 paragraph AG60. That is because the costs of setup activities do not depict the transfer of services to purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with ED 70 paragraph 94. | |
| Specific Application Issues | | | |
| Without BA: | Other Transfers (paragraphs 107-120) | | |
| Other Transfers | ED 71.AG34 | Transfers include 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 resource provider or a third-party beneficiary in return, and are not taxes as defined in this (draft) Standard. | |
| | ED 71.AG35 | Transfers satisfy the definition of an asset when the transfer recipient entity controls the resources as a result of a past event, 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 transaction price consideration can be reliably measured. In certain circumstances, such as | |

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| | | 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 transfer recipient entity decreases the carrying amount of the liability. | |
| | ED 71.AG36 | A transfer recipient An entity obtains control of transferred resources either when the resources have been transferred to the transfer recipient entity, or the transfer recipient entity 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 transfer recipient promises to transfer resources, but fails to do so. Consequently, only when (a) a claim is enforceable, and (b) the transfer recipient 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 transfer recipient entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer. | |
| | ED 71.AG37 | 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. | |
| | ED 71.AG38 | Transfers satisfy the definition of a transaction without performance obligations because the transfer provider provides resources to the transfer recipient without requiring the transfer recipient to transfer distinct goods or services to the transfer provider or a third party beneficiary. If an agreement requires that the transfer recipient 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). | 21.12-A 21.12-B |
| | ED 71.AG39 | A transfer recipient An entity analyzes all requirements contained in an agreement to determine if it incurs a present compliance obligation when it accepts transferred resources. | |
| Measurement – Determining the Transaction consideration | Measurement of Transferred Assets (see paragraphs XX) | | |
| | ED 71.AG40 | As required by paragraph 59, transferred assets are measured at their transaction price consideration as at the date of recognition. Inventories, property, plant, equipment, or investment property acquired through transactions without performance compliance obligations are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of paragraph 78. Financial instruments, including | |

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| | | cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at their transaction price consideration as at the date of acquisition in accordance with paragraph 60 and the appropriate accounting policy. | |
| Debt Forgiveness and Assumptions of Liabilities | Debt Forgiveness and Assumptions of Liabilities | | |
| | ED 71.AG41 | 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. | |
| | ED 71.AG42 | 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. | |
| | ED 71.AG43 | 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 7-8. | |
| | ED 71.AG44 | Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven. | |
| Fines | Fines | | |
| | ED 71.AG45 | AG45. Fines are economic benefits or service potential received or receivable by a public sector 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 and/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. | |
| | ED 71.AG46 | AG46. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 33. As noted in paragraph 12, where a transfer recipient an entity 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 transfer recipient entity. | |
| Bequests | Bequests | | |

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| | ED 71.AG47 | 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 transfer recipient entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws and/or regulations of the jurisdiction. | |
| | ED 71.AG48 | 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 transfer recipient entity, and the transaction price consideration 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 transfer recipient entity receiving any assets. The transfer recipient entity 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 transfer recipient entity. | |
| | ED 71.AG49 | The transaction price consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG52. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction price consideration of the asset bequeathed to the transfer recipient entity, and this amount may be available to the transfer recipient entity. Bequests are measured at the transaction price consideration of the resources received or receivable. | |
| Gifts, Donations, including Goods In-Kind | Gifts, Donations, including Goods In-kind (paragraphs XX) | | |
| | ED 71.AG50 | 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 resource 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 110-116. | |
| | ED 71.AG51, Board decision | Goods in-kind are tangible assets transferred to a transfer recipient an entity in a transaction without performance obligations that do not require a transfer of distinct goods or services to an external party, but may be subject to specified activities. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind. | 21.12-A 21.12-B |
| | ED 71.AG52 | 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 transfer recipient entity and the transaction price consideration of the assets can be measured reliably. With gifts and donations, the making | |

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| | | 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 transfer recipient entity. | |
| | ED 71.AG53 | 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 specified activities are required under the binding arrangement, a liability is recognized, which is reduced and revenue recognized, as the specified activities are completed. | |
| | ED 71.AG54 | On initial recognition, gifts and donations including goods in-kind are measured at their transaction price consideration, being its 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 consideration 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. | |
| Breach of BA | Breach of Terms and Conditions of a Binding Arrangement | | |
| | ED 71.AG58 | The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on: (a) Whether there are any incomplete compliance obligations remaining under the arrangement gave rise to a present obligation or not; (b) When the breach occurred—i.e., whether it was in the period in which the breach is discovered or in a prior period; and (c) The reason for the breach. | Editorials |
| | ED 71.AG59 | If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the transfer recipient entity will recognize a liability for the amount to be refunded to the transfer resource provider and derecognize any revenue recognized during the reporting period. | |
| | ED 71.AG60 | Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a: (a) Change in accounting estimate as defined in IPSAS 3, Accounting Policies, Changes in Accounting Estimates, and Errors. Accounting estimates are used where items in financial statements cannot be measured with precision and judgement may be required in measuring those items as described in IPSAS 3; | |

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| | | <p>(b) Prior period error which has arisen from a failure to use, or from the misuse of, faithfully representative information that was available when the financial statements for the period were authorized for issue or could reasonably be expected to have been obtained; or</p> <p>(c) Separate past event because the amount recognized in prior period financial statements is not an estimated amount and was based on the use of faithfully representative information available at the date of the approval of the financial statements for the relevant reporting period.</p> | |
| Specific Application Issues for Revenue with compliance obligations that requires transfer to external party | | Revenue from a Transaction with a Binding Arrangement Requiring a Transfer to an External Party | |
| | | Licensing | |
| | ED 70.AG100 | <p>A license establishes a purchaser's resource provider's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:</p> <p>(a) Software and technology;</p> <p>(b) Motion pictures, music and other forms of media and entertainment;</p> <p>(c) Franchises; and</p> <p>(d) Patents, trademarks and copyrights.</p> | |
| | ED 70.AG101 | <p>In addition to a promise to grant a license (or licenses) to a purchaser resource provider, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph 23). As with other types of binding arrangements, when a binding arrangement with a purchaser resource provider includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 21–29 to identify each of the performance compliance obligations in the binding arrangement.</p> | |
| | ED 70.AG102 | <p>If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 25–29, an entity shall account for the promise to grant a license and those other promised goods or services together as a single performance compliance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:</p> <p>(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and</p> <p>(b) A license that the purchaser or third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the</p> | |

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| | | entity that enables, by granting a license, the purchaser or third-party beneficiary to access content). | |
| | ED 70.AG103 | If the license is not distinct, an entity shall apply paragraphs 30–37 to determine whether the performance compliance obligation] (which includes the promised license) is a performance compliance obligation that is satisfied over time or satisfied at a point in time. | |
| | ED 70.AG104 | If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate performance compliance obligation, an entity shall determine whether the license transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the purchaser resource provider with either: (a) A right to access the entity's intellectual property as it exists throughout the license period; or (b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted. | |
| | | <i>Determining the Nature of the Entity's Promise</i> | |
| | ED 70.AG105 | The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met: (a) The binding arrangement requires, or the purchaser resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the purchaser resource provider has rights (see paragraphs AG106 and AG107); (b) The rights granted by the license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG105(a); and (c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 24). | |
| | ED 70.AG106 | Factors that may indicate that a purchaser resource provider could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the purchaser resource provider related to the intellectual property to which the purchaser resource provider has rights may also indicate that the purchaser resource provider could reasonably expect that the entity will undertake such activities. | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
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| | ED 70.AG107 | <p>An entity's activities significantly affect the intellectual property to which the purchaser resource provider has rights when either:</p> <ul style="list-style-type: none"> (a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or (b) The ability of the purchaser resource provider to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property. <p>Accordingly, if the intellectual property to which the purchaser resource provider has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).</p> | |
| | ED 70.AG108 | <p>If the criteria in paragraph AG105 are met, an entity shall account for the promise to grant a license as a performance compliance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 34(a)). An entity shall apply paragraphs 38–44 to select an appropriate method to measure its progress towards complete satisfaction of that performance compliance obligation to provide access.</p> | |
| | ED 70.AG109 | <p>If the criteria in paragraph AG105 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the purchaser resource provider. This means that the purchaser resource provider can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance</p> | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
|---------|-------------|---|--------------------------|
| | | compliance obligation satisfied at a point in time. An entity shall apply paragraph 37 to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available). | |
| | ED 70.AG110 | An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property: <ul style="list-style-type: none"> (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its performance compliance obligation at a point in time or over time. (b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a performance compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the purchaser resource provider that the license transferred meets the specifications of the license promised in the binding arrangement. | |
| | | <i>Sales-Based or Usage-Based Royalties</i> | |
| | ED 70.AG111 | Notwithstanding the requirements in paragraphs 55–58, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs: <ul style="list-style-type: none"> (a) The subsequent sale or usage occurs; and (b) The performance compliance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). | |
| | ED 70.AG112 | The requirement for a sales-based or usage-based royalty in paragraph AG111 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the purchaser resource | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
|---------|-----------------------------|--|--------------------------|
| | | provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates). | |
| | ED 70.AG113 | When the requirement in paragraph AG112 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG111. When the requirement in paragraph AG112 is not met, the requirements on variable consideration in paragraphs 49–58 apply to the sales-based or usage-based royalty. | |
| | | <i>Repurchase Agreements</i> | |
| | ED 70.33, Board decision | When evaluating whether a purchaser an entity obtains transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset (see paragraphs AG114–AG126). | 21.10-A |
| | ED 70.AG114 | A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the purchaser resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component. | |
| | ED 70.AG115 | Repurchase agreements generally come in three forms: (a) An entity's obligation to repurchase the asset (a forward); (b) An entity's right to repurchase the asset (a call option); and (c) An entity's obligation to repurchase the asset at the purchaser resource provider's request (a put option). | |
| | | <i>A Forward or a Call Option</i> | |
| | ED 70.AG116 | If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a purchaser resource provider does not obtain control of the asset because the purchaser resource provider is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following: (a) A lease in accordance with IPSAS 13, Leases if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or (b) A financing arrangement in accordance with paragraph AG118 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset. | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
|---------|-------------|---|--------------------------|
| | ED 70.AG117 | When comparing the repurchase price with the price, an entity shall consider the time value of money. | |
| | ED 70.AG118 | If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the purchaser resource provider. The entity shall recognize the difference between the amount of consideration received from the purchaser resource provider and the amount of consideration to be paid to the purchaser resource provider as interest and, if applicable, as processing or holding costs (for example, insurance). | |
| | ED 70.AG119 | If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue. | |
| | | <i>A Put Option</i> | |
| | ED 70.AG120 | If an entity has an obligation to repurchase the asset at the purchaser resource provider's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the purchaser resource provider has a significant economic incentive to exercise that right. The purchaser resource provider's exercising of that right results in the purchaser resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the purchaser resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IPSAS 13. | |
| | ED 70.AG121 | To determine whether a purchaser resource provider has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the purchaser resource provider has a significant economic incentive to exercise the put option. | |
| | ED 70.AG122 | If the purchaser resource provider does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG61–AG68. | |
| | ED 70.AG123 | If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG118. | |
| | ED 70.AG124 | If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the purchaser resource provider does not have a significant | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
|---------|-------------|--|--------------------------|
| | | economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG61–AG68. | |
| | ED 70.AG125 | When comparing the repurchase price with the price, an entity shall consider the time value of money. | |
| | ED 70.AG126 | If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue. | |
| | | Consignment Arrangements | |
| | ED 70.AG127 | When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchaser resource providers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment. | |
| | ED 70.AG128 | Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following: <ul style="list-style-type: none"> (a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a purchaser resource provider of the dealer or until a specified period expires; (b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and (c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit). | |
| | | Bill-and-Hold Arrangements | |
| | ED 70.AG129 | A bill-and-hold arrangement is a binding arrangement under which an entity bills a purchaser resource provider for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the purchaser resource provider's lack of available space for the product or because of delays in the purchaser resource provider's production schedules. | |
| | ED 70.AG130 | An entity shall determine when it has satisfied its performance compliance obligation to transfer a product by evaluating when a purchaser resource provider obtains control of that product (see paragraph 37). For some binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a purchaser resource | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
|---------|-------------|--|--------------------------|
| | | provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the purchaser resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the purchaser resource provider over the purchaser resource provider's asset. | |
| | ED 70.AG131 | In addition to applying the requirements in paragraph 37, for a purchaser resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met: <ul style="list-style-type: none"> (a) The reason for the bill-and-hold arrangement must be substantive (for example, the purchaser resource provider has requested the arrangement); (b) The product must be identified separately as belonging to the purchaser resource provider; (c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and (d) The entity cannot have the ability to use the product or to direct it to another purchaser resource provider. | |
| | ED 70.AG132 | If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining performance compliance obligations (for example, for custodial services) in accordance with paragraphs 21–29 to which the entity shall allocate a portion of the transaction price consideration in accordance with paragraphs 72–85. | |
| | | Purchaser Resource Provider Acceptance | |
| | ED 70.AG133 | In accordance with paragraph 37(e), a purchaser resource provider's acceptance of an asset may indicate that the purchaser resource provider has obtained control of the asset. Purchaser Resource provider acceptance clauses may allow the purchaser resource provider to cancel a binding arrangement or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the purchaser resource provider obtains control of a good or service. | |
| | ED 70.AG134 | If an entity can objectively determine that control of a good or service has been transferred to the purchaser resource provider in accordance with the agreed-upon specifications in the binding arrangement, then purchaser resource provider acceptance is a formality that would not affect the entity's determination of when the purchaser resource provider has obtained control of the good or service. For example, if the acceptance | |

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| Purpose | Sources | Draft Guidance | Related Board discussion |
|--------------------------------|---------------------------------------|---|--------------------------|
| | | clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of purchaser resource provider acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognized before the purchaser resource provider accepts the asset, the entity still must consider whether there are any remaining performance compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately. | |
| | ED 70.AG135 | However, if an entity cannot objectively determine that the good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the purchaser resource provider has obtained control until the entity receives acceptance by the purchaser resource provider. That is because in that circumstance the entity cannot determine that the purchaser resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from the good or service. | |
| | ED 70.AG136 | If an entity delivers products to a purchaser or third-party beneficiary for trial or evaluation purposes and the purchaser resource provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the purchaser resource provider until either the purchaser resource provider accepts the product or the trial period lapses. | |
| Disclosure (see paragraphs XX) | | | |
| Disclosure – | | Disclosure of Disaggregated Revenue | |
| Disaggregated Revenue | ED 71.AG55-AG57, ED 70.AG137-AG139 | [Subject to upcoming IPSASB discussions in Agenda Item 3.2.7] | |

Amendments to other IPSAS

| Purpose | Sources | Draft Guidance | Related Board discussion |
|---------------------------|---------|----------------|--------------------------|
| Amendments to other IPSAS | | | |
| | | [Pending] | |

Basis for Conclusions

| Purpose | Sources | Draft Guidance | Related Board discussion |
|---|---------|----------------|--------------------------|
| Basis for Conclusions | | | |
| This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X], <i>Revenue</i> . | | | |
| | | [Ongoing] | |

Implementation Guidance

| Purpose | Sources | Draft Guidance | Related Board discussion |
|--|--|---|--------------------------|
| Implementation Guidance | | | |
| This guidance accompanies, but is not part of, [draft] IPSAS [X], <i>Revenue</i> . | | | |
| | Changes in factors related to the enforceability of a binding arrangement | | |
| Implications of factors related to enforceability | <i>Board decision</i> | <p>Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?</p> <p>At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph XX [ED 70.7 / ED 71.10]. If it does meet the definition, the entity accounts for the binding arrangement in accordance with paragraphs XX-XX.</p> <p>After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the enforcement of the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but is not limited to:</p> <ul style="list-style-type: none"> (a) Changes in the legal framework impact the ability of the entity, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and (b) Changes in any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement. <p>The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 41.</p> | 22.03-E Editorials |

Illustrative Examples

| Purpose | Sources | Draft Guidance | Related Board discussion |
|--|---------|----------------|--------------------------|
| Illustrative Examples | | | |
| These examples accompany, but are not part of, [draft] IPSAS [X], <i>Revenue</i> . | | | |
| | | [Pending] | |

Supporting Document 2 – Updated Project Plans

The following updated project plans summarize the progress to date on the Revenue and Transfer Expenses projects as of June 2022, and are provided for reference purposes. The order of papers to be presented at future Board discussions is subject to change based on progress and Board discussions.

Papers presented in this Agenda Item are noted in **green**. Drafted guidance in progress, or being reviewed by the Drafting Group, are in **blue**.

Appendix 1 – Revenue Project Plan

| # | Issue | Principle-Related Paper | Non-Principle-Related or Drafting Paper |
|----|---|--|--|
| 1 | Options to Present Proposed Revenue Guidance | March 2021 Agenda Item 5.2.3 | n/a |
| 2 | Clarifying Binding Arrangements | March 2021 Agenda Item 5.2.4 | June 2021 Agenda Items 6.2.1 and 6.3.1 |
| 3 | Distinguishing Revenue from Performance Obligations as a Separate Type of Revenue | March 2021 Agenda Item 5.2.5 | March 2022 Agenda Item 8.2.3 |
| 4 | Transactions with Components within the Scope of Both Standards | March 2021 Agenda Item 5.2.6 | n/a – no longer applicable under a single IPSAS |
| 5 | Existence of a Liability in a Binding Revenue Arrangement without Performance Obligations | March 2021 Agenda Item 5.2.7 | Agenda Item 3.3.1 |
| 6 | How Enforceability is Exercised | June 2021 Agenda Item 6.2.3 | June 2021 Agenda Item 6.3.1 |
| 7 | Revising and Applying the Guidance on the Definition of a Liability | June 2021 Agenda Item 6.2.4 | Agenda Item 3.3.1 |
| 8 | Recognition and Derecognition of a Liability (Deferred Revenue) in Binding Arrangements | September 2021 Agenda Item 4.2.1 | Agenda Item 3.3.1 |
| 9 | Considering the Purpose and Benefits of the Drafting Group | n/a | September 2021 Agenda Item 4.2.5 |
| 10 | Draft IPSAS based on the Exposure Drafts (EDs) | n/a | September 2021 Agenda Item 4.2.6 |
| 11 | Presenting Revenue Guidance in the Final IPSAS | n/a | October 2021 Agenda Item 3.2.1 |
| 12 | The Concept of a 'Present Obligation' in Revenue Accounting | December 2021 Agenda Item 8.2.5 | March 2022 Agenda Item 8.2.3 |
| 13 | The New Term and Definition for 'Present Obligation' in the Revenue Context | December 2021 Agenda Item 8.2.6 | March 2022 Agenda Item 8.2.3 |
| 14 | Distinguishing Individual 'Present Obligations' | December 2021 Agenda Item 8.2.7 | December 2021 Agenda Item 8.2.7 and March 2022 Agenda Item 8.3.2 |
| 15 | Clarifying Specified Activities and Eligible Expenditures | December 2021 Agenda Item 8.2.8 | March 2022 Agenda Item 8.3.2 |
| 16 | Landscape of the Revenue and Transfer Expenses IPSAS | March 2022 Agenda Item 8.2.1 | n/a |

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| # | Issue | Principle-Related Paper | Non-Principle-Related or Drafting Paper |
|----|---|--|---|
| 17 | A New Term for the Single ‘Concept’ of Obligations in Binding Arrangements | March 2022 Agenda Item 8.2.3 | March 2022 Agenda Item 8.2.3 and revisions in Agenda Item 3.3.1 |
| 18 | Uncertainty of Enforcing Transactions with Binding Arrangements | March 2022 Agenda Item 8.2.4 | March 2022 Agenda Item 8.2.4 and revisions in Agenda Item 3.3.1 |
| 19 | Subsequent Measurement for Non-Contractual Receivables | Agenda Item 3.2.6 | <i>pending</i> |
| 20 | Disclosure Requirements for Revenue Transactions | Agenda Item 3.2.7 | <i>pending</i> |
| 21 | Accounting for Revenue from Capital Transfers | Agenda Item 3.2.8 | <i>pending</i> |
| 22 | Snapshot of Guidance Source Material | Agenda Item 3.2.9 | <i>n/a</i> |
| 23 | Other technical comments | <i>n/a</i> | <i>pending</i> |
| 24 | Other practical considerations | <i>n/a</i> | <i>pending</i> |
| 25 | Reassess or clarify existing definitions (e.g., performance obligation, revenue, income) | <i>n/a</i> | <i>pending</i> |
| 26 | Clarify or enhance existing proposed guidance | <i>n/a</i> | <i>pending</i> |
| 27 | Add additional guidance | <i>n/a</i> | <i>pending</i> |
| 28 | Consider existing or additional examples | <i>n/a</i> | <i>pending</i> |
| 29 | Appropriate title of the future IPSAS on revenue | <i>n/a</i> | <i>pending</i> |
| 30 | Amendments to Other IPSAS | <i>n/a</i> | <i>pending</i> |
| 31 | Communications for the Release of the Final Standard(s) | <i>n/a</i> | |

Appendix 2 – Transfer Expenses Project Plan

| # | Issue | Principle-Related Paper | Non-Principle-Related or Drafting Paper |
|----|--|--|--|
| 1 | Application of the Executory Contract Approach | April 2021 Agenda Item 1.2.3 | December 2021 Agenda Item 8.3.1 |
| 2 | Binding arrangements (i.e., enforceability in the context of transfer expenses accounting) | April 2021 Agenda Item 1.2.2 and June 2021 Agenda Item 6.2.2 | June 2021 Agenda Item 6.3.2 |
| 3 | Existence of an Asset in Binding Arrangements | September 2021 Agenda Item 4.2.2 | March 2022 Agenda Item 8.3.1 |
| 4 | Clarifying the Scope of the Transfer Expenses Standard | September 2021 Agenda Item 4.2.3 | September 2021 Agenda Item 4.2.3 |
| 5 | Distinguishing Transfer Expenses with and without Performance Obligations | September 2021 Agenda Item 4.2.4 | March 2022 Agenda Item 8.3.1 |
| 6 | Considering the Purpose and Benefits of the Drafting Group | n/a | September 2021 Agenda Item 4.2.5 |
| 7 | Draft IPSAS based on the Exposure Drafts (EDs) | n/a | September 2021 Agenda Item 4.2.6 |
| 8 | Transfer Expenses without Binding Arrangements: Clarification of Scope and Relationship with IPSAS 19 as a Consequence of Board Decisions and Instructions | December 2021 Agenda Item 8.2.1 | December 2021 Agenda Item 8.2.1 |
| 9 | Transfer Expenses without Binding Arrangements: Proposed Accounting Model | December 2021 Agenda Item 8.2.2 and Agenda Items 3.2.2 and 3.2.3 | December 2021 Agenda Item 8.2.2 and Agenda Items 3.2.2 and 3.2.3 |
| 10 | Transfer Expenses with Binding Arrangements: Proposed Accounting Model | December 2021 Agenda Item 8.2.3 and Agenda Items 3.2.2 and 3.2.3 | December 2021 Agenda Item 8.2.3 and March 2022 Agenda Items 8.2.2 and 8.2.5 and Agenda Items 3.2.2 and 3.2.3 |
| 11 | Proposed Drafting in Response to IPSASB Instructions | December 2021 Agenda Item 8.2.4 | December 2021 Agenda Item 8.2.4 |
| 12 | Guidance on Relationship Between Definition of Transfer Expense and Existence of Transfer Provider's Binding Arrangement Asset | March 2022 Agenda Item 8.2.2 | March 2022 Agenda Item 8.2.2 |
| 13 | Timing of Recognition of a Transfer Expense and Monitoring Arrangements | March 2022 Agenda Item 8.2.5 | March 2022 Agenda Item 8.2.5 |
| 14 | Allocation of Transaction Consideration to Transfer Rights | March 2022 Agenda Item 8.2.6 | March 2022 Agenda Item 8.2.6 |

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| # | Issue | Principle-Related Paper | Non-Principle-Related or Drafting Paper |
|-----------------|--|-------------------------|---|
| 15 | Additional considerations related to the revised accounting models: appropriations | <i>n/a</i> | Agenda Item 3.2.4 |
| 16 | Additional considerations related to the revised accounting models: impairment and onerous contracts | <i>n/a</i> | Agenda Item 3.2.5 |
| 17 | Additional considerations related to the revised accounting models: capital transfers | <i>pending</i> | <i>pending</i> |
| 18 | Reassess existing disclosures and consider any additional disclosures | <i>pending</i> | <i>pending</i> |
| 19 | Other revisions to maintain consistency with revenue standards | <i>pending</i> | <i>pending</i> |
| <i>multiple</i> | Other comments and clarifications | <i>pending</i> | |
| 20 | Amendments to Other IPSAS | <i>n/a</i> | <i>pending</i> |
| 21 | Communications for the Release of the Final Standard(s) | <i>n/a</i> | |

Supporting Document 3 – Transactions in the Revenue and Transfer Expenses Projects

This diagram, originally presented in March 2022 [Agenda Item 8.2.1](#), is provided here for reference purposes only. It illustrates that (1) only some transactions (specifically, transfer transactions) are covered in both projects, but not all, and (2) the transfer expenses project is focused on a narrow subset of expense transactions in the public sector.

