

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 12-16, 2022

Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

REVENUE AND TRANSFER EXPENSES

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	Topic	Agenda Item
Project management	Revenue and Transfer Expenses: Project Roadmap	6.1.1
	Instructions up to Previous Meeting	6.1.2
	Decisions up to Previous Meeting	6.1.3
Decisions required at this meeting	Progress on the Revenue and Transfer Expenses Projects	6.2.1
	Revised Presentation and Disclosure Requirements for Transfer Expense-Related Balances	6.2.2
	Revised Presentation and Disclosure Requirements for Transfer Expenses	6.2.3
	Application of the Revised Transfer Expenses Model to Capital Transfers	6.2.4
	Remaining Substantive Issues in the [Draft] Transfer Expenses IPSAS	6.2.5
	The [Draft] Transfer Expenses IPSAS and Consideration of Residual Issues	6.2.6
	Disclosure on Compelled Transactions	6.2.7
	Proposed Implementation Guidance Topics	6.2.8
Other supporting items	[Draft] IPSAS [X], <i>Transfer Expenses</i>	6.3.1
	[Draft] IPSAS [X], <i>Revenue</i>	6.3.2

**REVENUE AND TRANSFER EXPENSES:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Revenue	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of the performance obligation approach with the Consultative Advisory Group 2. 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 the Consultation Paper
March 2019	1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft for revenue with performance obligations 2. Develop Underlying Principles of Core Text and Authoritative Guidance for revenue without performance obligations
June 2019	1. Preliminarily approve updates to the core text and authoritative guidance of the Exposure Draft for revenue with performance obligations
September 2019	1. Review first draft of Exposure Draft for revenue without performance obligations, and discuss issues
December 2019	1. Approve Exposure Drafts
March 2020 to September 2020	1. Documents 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
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

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	<ul style="list-style-type: none"> 5. Initial discussion of effective date and transition requirements 6. Initial review of draft ED
June 2019	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 1. Disclosures – discussion of issues 2. Review of initial draft of ED
December 2019	<ul style="list-style-type: none"> 1. Review of draft ED final amendments 2. Review of examples – exception basis only 3. Approval of ED
March 2020 to September 2020	<ul style="list-style-type: none"> 1. Document Out for Comment
December 2020 to April 2021	<ul style="list-style-type: none"> 1. Review Responses 2. Discuss Issues
June 2021 to March 2022	<ul style="list-style-type: none"> 1. Review Responses 2. Discuss Issues 3. Develop IPSAS
June 2022 to September 2022	<ul style="list-style-type: none"> 1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2022	<ul style="list-style-type: none"> 1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Revenue		
July 2022	1. Amend the capital transfer examples for member's comments and incorporate the revised examples into the next version of the draft revenue IPSAS.	1. In progress.
June 2022	1. Relocate authoritative guidance on non-contractual receivables to better communicate its application to receivables from any revenue transaction arising outside of a contract.	1. See Agenda Item 6.3.2 .
June 2022	2. Further consider what additional non-authoritative guidance (in addition to those proposed in Agenda Item 3.2.6 from June 2022) will help entities apply IPSAS 41 principles to the subsequent measurement of non-contractual receivables	2. See Agenda Item 6.3.2 .
June 2022	3. Work with the Drafting Group to ensure disclosures guidance is succinct and effectively presented. Consider if disclosures on significant judgments could apply to all revenues.	3. Completed, see Agenda Item 6.3.2 .
June 2022	4. Draft Basis for Conclusions reflecting how the Board addresses comments about disclosure overload and that entity will need to consider which disclosures apply to their specific transaction.	4. In progress.
June 2022	5. Ensure that the definition of capital transfer appropriately describes the transaction.	5. Drafting Group and staff reviewed the definition and concluded the definition in Agenda Item 6.3.2 is appropriate.
June 2022	6. Draft application guidance, implementation guidance and illustrative examples on capital transfers. Explicitly note in the drafting that revenue recognition in a capital transfer is considered independently from how the funding is structured in the binding arrangement.	6. In progress, application guidance can be found in Agenda Item 6.3.2 .
June 2022	7. Draft Basis for Conclusions to explain that capital transfers are expected to arise from a binding arrangement.	7. In progress.

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October 2021	1. Consider how to communicate alignment with IFRS in supplemental materials.	1. Pending
September 2021	1. Ensure the draft IPSAS include clear structure and signposting for ease of use.	1. In progress, see Agenda Item 6.3.2
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
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. See Agenda Item 6.3.2 . The proposed title is "Revenue", based on the IPSASB's October 2021 decision to have a single IPSAS for all revenue transactions in the public sector.
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 [compliance] obligation occurs prior to the receipt of cash and incorporate this guidance in an example on multi-year arrangements.	3. In progress
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		
June 2022	1. Explicitly state in the draft standard that the transfer provider needs to first consider if the transfer transaction arises from a binding arrangement that results in an asset	1. See Agenda Item 6.3.1 .

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	upon initial recognition, then consider the subsequent derecognition of the asset and recognition of an expense.	
June 2022	2. Explain the interaction between constructive obligations and contract accounting principles in the draft standard.	2. See Agenda Item 6.3.1 .
June 2022	3. Draft non-authoritative implementation guidance for appropriations based on discussions with board members.	3. See Agenda Item 6.3.1 .
June 2022	4. Reconsider the interaction with the impairment standards to develop principles that can be applied to the transfers of cash and non-cash assets.	4. See Agenda Item 6.3.1 .
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 the text to ensure that this does not remove necessary guidance.	1. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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. See Agenda Item 6.3.1 .
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. See Agenda Item 6.3.1 .
March 2022	4. Consider appropriate disclosure requirements in light of the revised drafting.	4. See Agenda Items 6.2.2 and 6.2.3 .
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. See Agenda Item 6.3.1 .
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. See Agenda Item 6.2.8 .
December 2021	1. Revise the drafting of the proposed accounting model for transfer expenses without binding	1. See Agenda Item 6.3.1 .

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	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 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	2. Incorporate the flowchart from the presentation into the guidance in the <i>Transfer Expenses</i> IPSAS.	2. Currently done in narrative form, see Agenda Item 6.3.1 .
December 2021	3. 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.	3. Incorporated into Measurement guidance. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
December 2021	4. 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.	4. Interactions between recognition of an asset and a liability incorporated into Application Guidance. Impact of monitoring is incorporated into Application Guidance regarding binding arrangements and enforceability. See Agenda Item 6.3.1 .
December 2021	5. Revise the proposed drafting related to cost of services provided by transfer provider and impairment.	5. Issue on cost of services is incorporated into measurement. Impairment is discussed in footnote 2 in draft IPSAS. See Agenda Item 6.3.1 .
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. This issue is no longer relevant due to the revisions regarding the recognition of a transfer right asset from transfer transactions arising from a binding arrangement. See Agenda Item 6.3.1 .
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	2. Drafting of Basis for Conclusions in progress.

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	proposed guidance.	
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. See Agenda Item 6.3.1 .
September 2021	4. Ensure the draft IPSAS include clear structure and signposting for ease of use.	4. See Agenda Item 6.3.1 .
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. See Agenda Item 6.3.1 .
April 2021	1. Reconsider the working title of the proposed transfer expense standard after reviewing and assessing constituent comments on scope.	1. Title left as "Transfer Expenses". See Agenda Item 6.2.6 .
April 2021	2. Consider whether there are any useful implementation examples that clearly communicate the principles and are jurisdictionally neutral.	2. See Agenda Item 6.2.8 .
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. See Agenda Item 6.3.1 .
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. The revised draft IPSAS clarifies that only transactions which result in the transfer of resources to external parties without receiving anything directly in return are transfer expenses. Therefore, intercompany transfers would not be considered transfer expenses for the consolidated entity. See Agenda Item 6.3.1
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. See Agenda Items 6.2.2 and 6.2.3 .
April 2021	6. Provide specific guidance through examples on accounting for partially fulfilled binding arrangements.	6. See Agenda Item 6.2.8 .
December 2020	1. Regarding the staff's proposal to	1. See Agenda Items 6.2.2 and 6.2.3 .

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	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.	
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

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Revenue		
July 2022	1. Subject to the instructions, the examples are appropriate for inclusion in the revised draft revenue IPSAS.	1. In progress.
June 2022	1. IPSAS 41 accounting principles should be applied by analogy to subsequently measure non-contractual receivables, as proposed in the ED.	1. Incorporated – drafted Basis for Conclusion (BC) is pending review
June 2022	2. The disclosure requirements proposed in the ED remain appropriate and should be retained, in the revised order proposed.	2. Incorporated. BC pending
June 2022	3. The accounting for capital transfers is addressed by the general model on revenue arising from binding arrangements.	3. Incorporated – drafted Basis for Conclusion (BC) is pending review
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 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	1. Incorporated – BC presented March 2022 Agenda Item 8.2.3

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	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.	
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 in a binding arrangement, with refinements.	3. Incorporated – drafted BC is pending review
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	1. Incorporated – drafted BC is

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	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".	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
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	1. Incorporated in drafting.

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	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).	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
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. See Agenda Item 6.3.2 . The proposed title is "Revenue", based on the IPSASB's October 2021 decision to have a single IPSAS for all revenue transactions in the public sector. BC pending
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

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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) 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.	8. N/A – no longer necessary based on October 2021 Agenda Item 3.2.1 decision to have a single Revenue IPSAS
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 June 2022 Agenda Item 3.2.7
December 2019	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70 .	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70 .

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	<i>Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations</i>	<i>Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations</i>
Transfer Expenses		
June 2022	1. Subject to drafting instructions, the key transfer expense accounting principle is determining whether the entity controls a transfer right.	1. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
June 2022	2. Subject to drafting instructions, a liability should be recognized prior to the transfer if: (a) In transactions arising from a binding arrangement, the transfer recipient fulfilled its compliance obligations; or (b) In transactions not involving a binding arrangement, the facts and circumstances results in: A constructive obligation as described in IPSAS 19 or a legal obligation which requires an outflow of resources.	2. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
June 2022	3. Subject to instructions on drafting implementation guidance, appropriations are addressed by the general accounting model for transfer expenses and no additional authoritative guidance is needed.	3. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
June 2022	4. Onerous contracts are not applicable to transfer expenses.	4. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress
September 2021	1. Where the transfer provider in a binding arrangement transfers cash or other resources prior to the	1. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.

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	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	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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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. The draft IPSAS in Agenda Item 6.3.1 has been reviewed by the Drafting Group. Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
June 2021	2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding	2. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.

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	arrangement and uncertainty of enforcement is a measurement issue.	
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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.
April 2021	1. Address principle-related issues raised by constituents first, before considering other issues raised.	1. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
April 2021	2. Revise the presentation of guidance in the transfer expense standard to better reflect the public sector.	2. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
April 2021	4. Confirm that, in a binding arrangement, each party will have at least one present obligation.	4. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
April 2021	5. Confirm that enforceability can be	5. Incorporated into draft IPSAS. See

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	demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis.	Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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. Distinction has been removed from draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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. Distinction has been removed from draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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 into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.
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	11. Incorporated into draft IPSAS. See Agenda Item 6.3.1 . Drafting of Basis for Conclusions in progress.

Agenda Item 6.1.3

	constitute a single asset or liability.	
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. See Agenda Items 6.2.2 and 6.2.3 . Drafting of Basis for Conclusions 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

Progress on the Revenue and Transfer Expenses Projects

Purpose

1. To provide an overview of the progress on the Revenue and Transfer Expenses projects, and next steps leading to December 2022.

Background

2. The IPSASB began reviewing constituent responses to the Revenue and Transfer Expenses Exposure Drafts (EDs) in December 2020, with a focus on first finalizing the accounting principles in the authoritative guidance (core text and Application Guidance (AGs)) before finalizing the non-authoritative guidance (Basis for Conclusions (BCs), Implementation Guidance (IGs) and Illustrative Examples (IEs)).
3. To move the projects forward efficiently, the IPSASB and staff have maintained a consistent approach throughout this phase of the projects. This included:
 - (a) Detailed analysis and discussions on substantial issues to finalize accounting principles;
 - (b) Active collaboration between the staff project leads to ensure consistency in principles, where appropriate by considering whether any decisions in one project impact the other;
 - (c) Updated project plans at each Board session to outline remaining issues; and
 - (d) Engagement with the established Drafting Group (DG), explained further in paragraph 5, to review and revise the draft authoritative text of the two IPSAS based on IPSASB decisions and instructions to date.

Reflecting IPSASB Decisions

4. The IPSASB has made substantial progress on both projects using this approach. Several of its key decisions on principle-related and conceptual issues have resulted in several changes to the authoritative text of the proposed IPSAS. This includes, but is not limited to:
 - (a) Presenting all revenue guidance in a single IPSAS;
 - (b) Revising the transfer expenses guidance to reflect the perspective of the transfer provider;
 - (c) Restructuring guidance in both proposed standards to improve clarity and understandability, and better communicate the prevalence of transaction types in the public sector;
 - (d) Emphasizing binding arrangements as a fundamental concept for both revenue and transfer expenses accounting; and
 - (e) Refining the accounting principles associated with other concepts in revenue and transfer expenses accounting.
5. The IPSASB established the DG to enable the Board to prioritize principle-related issues during its limited agenda time. The IPSASB agreed that the purpose of the DG is to:
 - (a) Support staff in actioning and incorporating Board decisions and instructions in the drafting of the proposed standards; and

- (b) Perform detailed reviews of staff's drafting to confirm that IPSASB decisions and instructions are appropriately reflected.¹
- 6. The DG has worked closely with staff to reflect Board decisions and instructions in the proposed IPSAS. Given the volume and complexity of material, staff and the DG previously presented draft authoritative text in tabular format, at each Board session, to clearly narrate the impact of the IPSASB's decisions and instructions on the content and structure of the draft IPSAS.

Q3 2022

- 7. Staff and the DG have incorporated all decisions and instructions as of the July 2022 into the authoritative guidance of the two proposed IPSAS (Agenda Items [6.3.1](#) and [6.3.2](#)).
- 8. The IPSASB will complete all principle-related discussions at this September 2022 IPSASB meeting (see the background of [Agenda Item 6.2.8](#) for more details). These decisions will influence the consideration and review of the draft non-authoritative guidance.

Next Steps – Q4 2022

- 9. The IPSASB is expected to approve the Revenue and Transfer Expenses IPSAS in December 2022. Once the Board approves the new IPSAS, it will consider the need for re-exposure as part of its due process². To reach this milestone, staff and the Drafting Group will complete the following in Q4:
 - (a) Continue to reflect remaining IPSASB decisions and instructions in the draft IPSAS;
 - (b) Ensure that Basis for Conclusions reflect IPSASB decisions;
 - (c) Summarize the proposed Amendments to Other IPSAS;
 - (d) Draft Implementation Guidance based on the IPSASB's decisions on [Agenda Item 6.2.8](#); and
 - (e) Review and present to the IPSASB the recommended draft Illustrative Examples.
- 10. Staff have summarized the progress to date and expected timelines for guidance on both projects in [Appendix 1](#). IPSASB members will be able to review Implementation Guidance and Illustrative Examples by exception in December 2022, consistent with the process on previous projects (e.g., IPSAS 41).
- 11. Members are encouraged to connect with staff offline on any specific points they would like discussed.

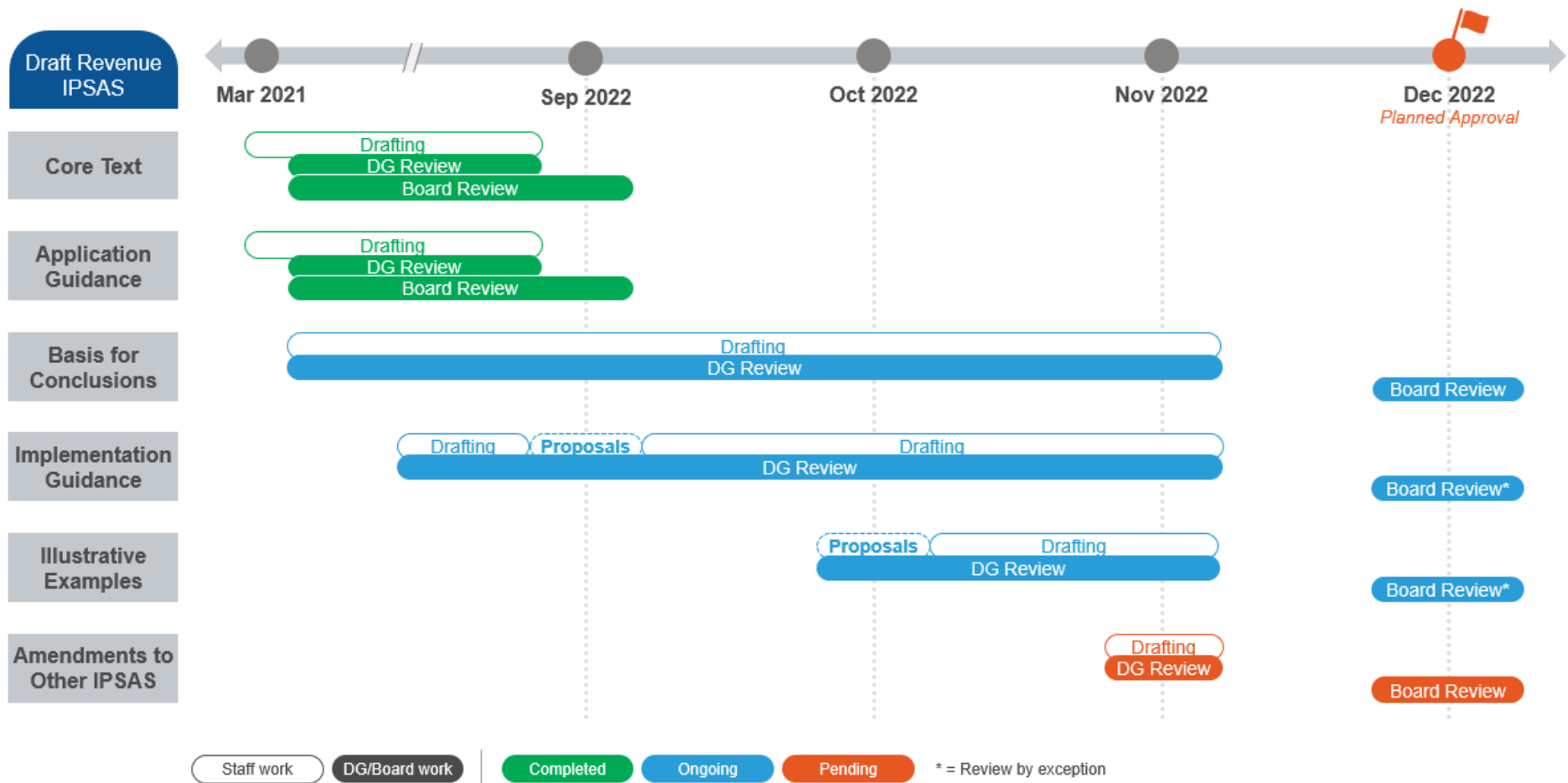
¹ See [September 2021 Agenda Item 4.2.5](#) for additional details. The Drafting Group does not reopen decisions made by the IPSASB. The Drafting Group did not identify any significant issues related to the drafting of a decision that required further Board clarification.

² IPSASB Due Process requires the IPSASB to consider whether there has been a substantial change from the original exposure draft such that a vote on re-exposure is necessary. An affirmative vote by IPSASB in accordance with the IPSASB's Terms of Reference that re-exposure is required to issue a re-exposure draft. The basis of the IPSASB's decisions with respect to re-exposure is recorded in the minutes. The re-exposure is accompanied with a summary memorandum (At-a-Glance document) that includes the reasoning behind it, and sufficient information to understand the changes made as a result of the earlier exposure. IPSASB staff believe that re-exposure is likely to be necessary for both the Revenue and Transfer Expenses EDs, however, note that decision is not taken until the international standard(s) are reviewed and approved by a vote by the IPSASB.

Appendix 1 – Progress and Proposed Timeline for the Revenue and Transfer Expenses IPSAS

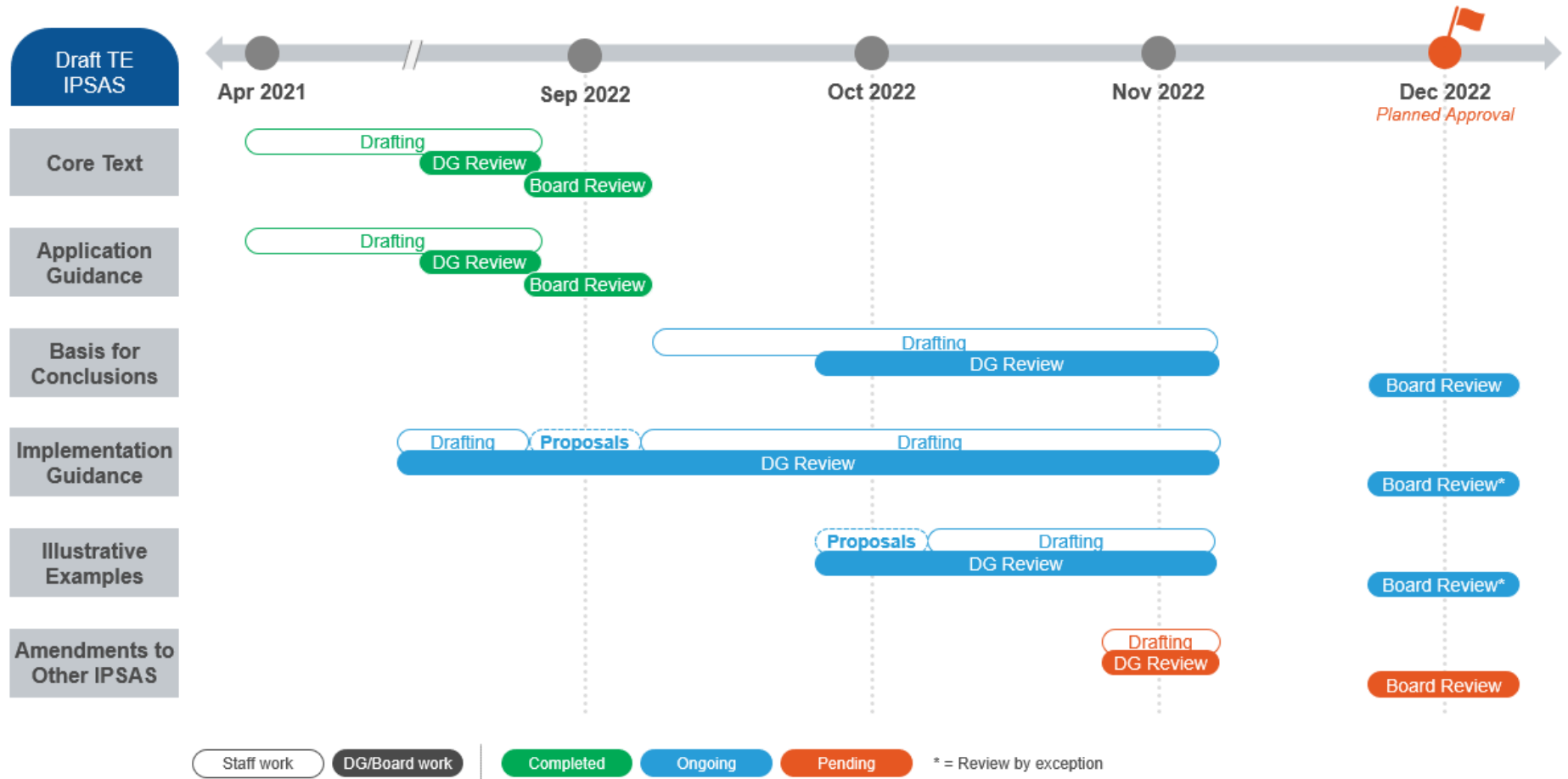
The following diagrams provide a visual timeline for work on the Revenue and Transfer Expenses projects, respectively.

Revenue



Agenda Item 6.2.1

Transfer Expenses



Revised Presentation and Disclosure Requirements for Transfer Expense-Related Balances

Question

1. Does the IPSASB agree with the proposed presentation and disclosure requirements for transfer expense-related balances?

Recommendations

2. Staff recommend revising the [draft] Transfer Expenses standard to:
 - (a) Clarify that the presentation and disclosure of transfer expense-related balances are addressed by the presentation and disclosure requirements in IPSAS 1, *Presentation of Financial Statements*, and in certain cases, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 30, *Financial Instruments: Disclosures*, and provide clear signposting to these standards;
 - (b) Require the disclosure of significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions, if not already disclosed elsewhere in the financial statements;
 - (c) Require the disclosure of a reconciliation of the opening and closing balances of transfer right assets, if not otherwise separately presented or disclosed; and
 - (d) Include a Specific Matters for Comment asking for feedback on whether the disclosure proposed in paragraph 2(c) would provide helpful information.

Background

3. In response to [draft] IPSAS [X], *Transfer Expenses* (ED 72), the majority of responses disagreed or only partially agreed with the proposed presentation and disclosure requirements. Constituents raised significant concerns over the following areas:
 - (a) Requirements that were seen as excessively detailed, such as the disaggregation of certain transfer expenses;
 - (b) Requirements that were seen as overly complex and provided little value to users, such as separate disclosures for the reconciliations for the opening and closing balances of binding arrangement assets or binding arrangement liabilities (now referred to as transfer right assets and transfer obligation liability in the revised draft standard); and
 - (c) Requirements that were specific to the proposed use of the Public Sector Performance Obligation Approach (PSPOA) model for transfer expenses, such as details on the transfer recipient's remaining performance obligations or distinction between transfer expenses with and without performance obligations. Constituents were concerned that such disclosures would have required information that only the transfer recipient can access.
4. To address the above issues and to account for the fact that the accounting model for transfer expenses has been revised, staff reconsidered the presentation and disclosure proposals using a principled approach to ensure that the requirements are appropriate. This paper sets out the revised proposals for transfer expense-related balances.

5. [Agenda Item 6.2.3](#) specifically considers the presentation and disclosure of transfer expenses.

Analysis

6. Staff noted that for a transfer provider, in addition to a transfer expense itself, the following financial statement balances could result from a transfer transaction:
- (a) Transfer right asset;
 - (b) Financial asset; and
 - (c) Transfer obligation liability.

Transfer Right Asset

7. As many respondents to ED 72 noted, transfer right assets are of a similar nature as prepayment assets. IPSAS 1³ provides guidance on the presentation of prepayment assets, so staff are of the view that there is already sufficient guidance on the presentation of transfer right assets in the financial statements.
8. However, as expenditures for programs and activities are typically expensed in the statement of financial performance, the recognition of a transfer right asset is not in line with general expectations. Therefore, an explanation of why a transfer right asset is recognized and information regarding the recognized asset may be helpful to users. As a result, staff recommend the following requirements:
- (a) Disclosure of significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions; and
 - (b) Disclosure of a reconciliation of the opening and closing balances of transfer right assets, if not otherwise separately presented or disclosed.
9. During discussions with the Drafting Group, a member noted that the disclosures proposed in paragraph Error! Reference source not found. were already presented or disclosed in the financial statements as part of the information on the entity's programs and activities. Therefore, staff will clarify in the drafting that these additional disclosures are only required if the information is not already presented or disclosed elsewhere in the financial statements.
10. In addition, as constituents have previously raised concerns over the complexity and value of reconciliations for binding arrangement assets and liabilities, staff recommend including a Specific Matters for Comment asking for feedback on whether the reconciliation disclosure proposed in paragraph 8(b) would provide helpful information in light of the overall reduction of disclosures in the [draft] standard.

Financial Asset

11. Staff noted that a transfer may also result in a financial asset. Subsequent to the transfer of resources, a transfer recipient may become unwilling or unable to fulfill its obligations in the binding arrangement. In these situations, the transfer provider may have an unconditional right to receive cash based on the terms of the binding arrangement, the legal system in the jurisdiction, or other circumstances. In these circumstances, the transfer right asset is reclassified to a financial asset.

³ IPSAS 1, paragraphs 76, 90-91, and 94(b).

12. Subsequent to the reclassification, the accounting, presentation, and disclosure of the financial asset fall within the scope of IPSAS 41, *Financial Instruments*, IPSAS 28, and IPSAS 30, respectively. Therefore, staff are of the view that no additional guidance is required.

Transfer Obligation Liability

13. Transfers obligation liabilities could arise from situations where the transfer recipient has already fulfilled their obligations under a binding arrangement (i.e., the transfer provider's right is already extinguished), and the transfer provider is obligated to transfer cash or other assets under the arrangement. Alternatively, in situations without a binding arrangement, a liability could be recognized due to a legal or constructive obligation to transfer resources. In both situations, the obligation to transfer resources is unconditional and the liability is of a similar nature as a payable, except in some cases the settlement is done through the transfer of non-cash assets.
14. IPSAS 1 already provides guidance on the presentation of "transfers payable,"⁴ which are a specific form of transfer obligation liabilities where the transfer provider is obligated to pay cash. Based on the similar nature of transfer obligation liability and transfers payable, staff are of the view that the guidance on the presentation of transfers payable in IPSAS 1 should be applied to all transfer obligation liabilities.
15. In addition, staff noted that transfer obligation liabilities which arose from an obligation to transfer cash are a financial liability measured at amortized cost, so the disclosure requirements in IPSAS 30 for payables (e.g., maturity analysis) would be applicable.
16. For transfers without a binding arrangement where a liability is recognized for a legal or constructive obligation, staff noted that the disclosure requirements in IPSAS 19 would be applicable.

Decision Required

17. Does the IPSASB agree with the staff [recommendations](#)?

⁴ IPSAS 1, paragraphs 80 and 88(j).

Revised Presentation and Disclosure Requirements for Transfer Expenses

Question

1. Does the IPSASB agree with the proposed revisions to the presentation and disclosure requirements for transfer expenses?

Recommendation

2. Staff recommend revising the [draft] Transfer Expenses standard to clarify that the general presentation and disclosure requirements for expenses in IPSAS 1, *Presentation of Financial Statements*, should be applied to transfer expenses.

Background

3. As noted in [Agenda Item 6.2.2](#), the majority of respondents disagreed or only partially agreed with the proposed disclosure requirements in [draft] IPSAS [X], *Transfer Expenses* (ED 72). To address the issues noted in [Agenda Item 6.2.2](#), staff reconsidered the presentation and disclosure proposals for transfer expenses. This paper sets out the revised proposals.

Analysis

4. ED 72 proposed that the objective of the disclosure requirements is for a transfer provider to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expenses.
5. Staff are of the view that the above objective remains appropriate but noted that many of the proposed disclosures in ED 72 were based on the revenue exposure drafts, which in turn were based on IFRS 15, *Revenue from Contracts with Customers*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Consistent with comments raised by constituents, these proposals do not address the key information needs for expenses and should be revised to focus on how an entity uses its resources, particularly how resources are spent on an entity's programs, activities, and services.
6. Therefore, staff are of the view that the following existing presentation and disclosure requirements for expenses in IPSAS 1 should be applied to transfer expenses, as they adequately provide users with information regarding how an entity is using its resources:
 - (a) Paragraph 109 requires an entity to present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, either on the face of the statement of performance or in the notes;
 - (b) Paragraph 111 notes that expenses are subclassified to highlight the cost and cost recoveries of particular programs, activities, or other relevant segments of the entity; and
 - (c) Paragraph 115 requires entities classifying expenses by function to disclose additional information on the nature of expenses, including depreciation and amortization expense, social benefits expense, and employee benefits expense.

Decision Required

7. Does the IPSASB agree with the staff [recommendation](#)?

Application of the Revised Transfer Expenses Model to Capital Transfers

Question

1. Does IPSASB agree that the revised model for transfer expenses arising from binding arrangements is appropriate to account for capital transfers?

Recommendations

2. Staff recommend that:
 - (a) No additional authoritative guidance needs to be developed for capital transfers; and
 - (b) Consistent with the [draft] Revenue standard, the [draft] Transfer Expenses standard should clarify in the application guidance how the general accounting principles for transfer expenses arising from binding arrangements should be applied to capital transfers.

Background

3. Capital transfers are currently defined in the [draft] IPSAS [X], *Revenue* as, “an inflow [for the transfer recipient], that arises from a binding arrangement, of cash or another asset with a specification that the entity [transfer recipient] acquires or constructs a non-financial asset that will be controlled by the entity.”
4. In June 2022, staff presented a paper on the application of the general accounting principles for revenue arising from binding arrangements to capital transfers. The IPSASB agreed that the proposed general revenue guidance should be used to account for capital transfers and that no new revenue principles need to be developed.
5. As part of the feedback received for [draft] IPSAS [X], *Transfer Expenses*, a number of constituents requested an explanation of how a transfer provider would account for capital transfers. In addition, given the relationship between the Revenue and Transfer Expenses projects, staff considered how the general model for transfer expenses proposed in June 2022 would apply to capital transfers. This paper addresses the application of the revised transfer expenses model to capital transfers.

Analysis

6. Under the revised model for transfer expenses, when a transfer provider transfers a resource in accordance with a binding arrangement, the transferred assets are derecognized, and a transfer right asset is recognized. The transfer right asset represents the transfer provider's enforceable right to have the transfer recipient fulfill its obligations in a manner or face the consequences as specified in the binding arrangement. This transfer right asset is then derecognized, and a transfer expense is recognized when (or as) the transfer rights are extinguished in accordance with the terms of the binding arrangement.
7. For a capital transfer, the terms of a binding arrangement will require the transfer recipient to either acquire or construct a specified non-financial asset. Therefore, depending on the terms of the binding arrangement, the transfer provider's transfer rights will be extinguished:
 - (a) When the transfer recipient acquires the specified non-financial asset; or
 - (b) When or as the transfer recipient constructs the specified non-financial asset.

8. The proposed transfer expenses model adequately addresses both of the above scenarios. Upon the initial transfer of resources in the capital transfer, the transfer provider recognizes a transfer right asset. Subsequently:
 - (a) If the transfer recipient acquires the specified non-financial asset, the transfer provider's transfer right is extinguished once this asset has been acquired. This will result in derecognition of the entire transfer right asset and the recognition of the entire amount as a transfer expense; or
 - (b) If the transfer recipient constructs the specified non-financial asset, the transfer right is extinguished as the asset is being constructed by the transfer recipient. In this case, the transfer right asset is derecognized, and a transfer expense is recognized based on the measure of progress as determined by the transfer provider. Staff expects that this will generally be over the construction period in a pattern that reflects the construction progress.
9. In the event that a transfer recipient acquires or constructs the asset prior to the transfer from the transfer provider, the proposed guidance requires the transfer provider to recognize a transfer obligation liability and an expense for the obligation to transfer resources. The transfer provider will either recognize a liability and expense for the full amount once the transfer recipient acquires the asset or recognize the liability and expense over the construction period in a pattern which reflects the construction progress. The subsequent transfer of resources will then be accounted for as a settlement of the transfer obligation liability.
10. There may be situations where after the initial transfer from the transfer provider, a transfer recipient is unable or unwilling to acquire or construct the specified non-financial asset. When this occurs, the proposed guidance requires an entity to consider whether the transfer provider has an enforceable unconditional right to a refund of the transferred resources, and if so, the transfer right asset is reclassified to a financial asset accounted for using IPSAS 41, *Financial Instruments*. If the asset is not reclassified, the proposed guidance states that the transfer provider shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.
11. Based on paragraphs 8-10 above, the proposed transfer expense model adequately addresses the accounting for capital transfers from the transfer provider's perspective. Therefore, staff is of the view that:
 - (a) No additional authoritative guidance is required to be developed for capital transfers; and
 - (b) Capital transfers should be addressed in the [draft] Transfer Expense standard by clarifying in the application guidance how the general principles for transfer expenses arising from binding arrangements are applicable.

Decision Required

12. Does the IPSASB agree with the staff [recommendations](#)?

Remaining Substantive Issues in the [Draft] Transfer Expenses IPSAS

Question

1. Does IPSASB agree with staff's proposed revisions to definitions, measurement, and transitional provisions in the [draft] Transfer Expenses IPSAS?

Recommendations

2. Staff recommend the following revisions in the [draft] Transfer Expenses IPSAS:
 - (a) Addition of the terms "transfer consideration" and "stand-alone consideration";
 - (b) Simplification of the measurement requirements for variable consideration by referring to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
 - (c) Simplification of the allocation of transfer consideration to individual transfer rights based on the amounts stated in a binding arrangement, or if not explicitly stated, the amounts the transfer provider intended to compensate the transfer recipient for fulfilling each of its obligations in the binding arrangement; and
 - (d) Simplification of the transitional provisions to allow prospective application or full respectively application.

Background

3. In addition to revising the [draft] Transfer Expenses standard to implement the IPSASB's decisions and instructions on Transfer Expenses up to July 2022, staff made other changes based on feedback on [draft] IPSAS [X], *Transfer Expenses* (ED 72) that have not yet been discussed with the IPSASB, as well as for comments from the Drafting Group (DG). This paper summarizes these changes.

Analysis

Revisions to Definitions – Addition of "Transfer Consideration" and "Stand-alone Consideration"

4. ED 72 and the Revenue EDs all used the term "transaction price," which is defined as the amount of consideration to which an entity expects to be entitled. The DG has since revised the term in the current [draft] Revenue standard to "transaction consideration" to better capture the concept in the new model. To account for the transfer provider's perspective in a transfer transaction, staff introduced the term "transfer consideration," which is defined as the amount of total consideration which an entity expects to transfer.
5. Also consistent with the Revenue EDs, ED 72 used the term "stand-alone price," which is defined as the price at which an entity would provide a promised good or service separately to a purchaser or third-party beneficiary. The DG has subsequently revised the term to "stand-alone value" in the revised [draft] Revenue standard. Staff and the DG noted that this term cannot be used for transfer expenses as its definition is specific to a resource recipient's perspective. To account for the transfer provider's perspective, staff and the DG recommend the term "stand-alone consideration," which is defined as the amounts that an entity intended to compensate the transfer recipient for fulfilling each of its obligations in a binding arrangement.

Revisions to the Measurement of Transfer Expenses from Transactions with Binding Arrangements – Variable Consideration

6. The proposed guidance on variable consideration in ED 72 was based on the proposals on variable consideration in the Revenue EDs. However, when accounting for a transfer expense transaction from the transfer provider's perspective, specific guidance on variable consideration is not required, as any variable consideration will result in a liability of uncertain timing or amount. Such a liability meets the definition of a provision in IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*.
7. Therefore, staff recommend simplifying the guidance on variable consideration for transfer expenses by referring to the measurement requirements for a provision in IPSAS 19 when it is more likely than not that a present obligation exists for the transfer of variable consideration.

Revisions to the Measurement of Transfer Expenses from Transactions with Binding Arrangements – Determination and Allocation of Transfer Consideration to Individual Transfer Rights

8. The proposals in ED 72 on the determination of transfer consideration and the allocation of the transfer consideration to individual transfer rights largely mirrored the corresponding guidance in revenue. Respondents noted that this approach was overly complex and required access to information from the transfer recipient, which may not always be practicable.
9. To simplify the guidance and to focus on the transfer provider's perspective, staff recommend:
 - (a) Determining the transfer consideration based on the total carrying amount of the resources which a transfer provider has transferred, or is obligated to transfer, in accordance with the binding arrangement, adjusted for the effects of variable consideration; and
 - (b) Allocating the transfer consideration to individual transfer rights based on the amount the transfer provider intended to compensate the transfer recipient for fulfilling each of its obligations in the binding arrangement. If these amounts are not explicitly stated in a binding arrangement, the amounts considered by the transfer provider when negotiating the binding arrangement should be used.
10. Staff noted that these simplifications are appropriate for transfer expenses because:
 - (a) The transfer provider would be fully aware of how much they are willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and
 - (b) For revenue, the allocation of transaction consideration to each compliance obligation is much more robust, because in addition to potentially changing the timing of revenue recognition, an inappropriate allocation could also obscure the margins for certain goods or services, or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

Simplification of the Transitional Provisions

11. Respondents noted that even with practical expedients, the retrospective transitional provisions in ED 72 were onerous, with benefits not outweighing the costs, and could lead to practical difficulties in applying the [draft] standard. During discussions with the Drafting Group, it was also noted that ED 72's transitional provisions will most likely not result in any value-added information for users.

12. Staff considered whether prospective application would be result in a significant loss of information or a significant departure from the Conceptual Framework and noted that:
- (a) If a transfer expense was fully expensed in a prior period, the transfer of resources would have already occurred, and the expenditure would have already been reported in the financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with the [draft] standard, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure. In addition, based on the typical nature and length of transfers from transactions both with and without binding arrangements, most transfer transactions are expected to either not result in a prior-period adjustment or may result in the recognition of an asset in the prior-period that would be expensed in the current period or shortly after. Therefore, retrospective application of the [draft] standard appears to result in very little benefits compared to the implementation costs;
 - (b) If a prior-period transfer resulted in a prepayment asset, the recognition and measurement of such an asset would likely be consistent with the proposed recognition and measurement of transfer right assets. This is because prepayment assets are often measured at the amortized cost of the prepaid goods or services, which would be consistent with how much the transfer provider would be willing to pay for the transfer recipient to fulfil its obligations; and
 - (c) If a liability was recognized for a prior-period transfer, the recognition of the liability would have been driven by either a legal or constructive obligation outside a binding arrangement to transfer resources, or an obligation from a binding arrangement to transfer resources. In all cases, the recognition and measurement of such a liability would be consistent with the proposed recognition and measurement of a transfer obligation liability.
13. Based on these reasons, staff simplified the transitional provisions to allow prospective application of the [draft] standard for transfers made on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statements, staff also included the option to adopt the [draft] standard on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Decision Required

14. Does the IPSASB agree with the staff [recommendations](#)?

The [Draft] Transfer Expenses IPSAS and Consideration of Residual Issues

Question

1. Does IPSASB agree with staff's revisions to the core text and application guidance in the [draft] Transfer Expenses IPSAS?

Recommendation

2. Staff recommend inclusion of the revised authoritative text in the [draft] Transfer Expenses IPSAS.

Background

3. The IPSASB began reviewing constituent responses to [Draft] IPSAS [X], *Transfer Expenses* (ED 72) in December 2020. Staff reworked the [draft] transfer expenses standard based on the IPSASB's decisions and instructions up to the July 2022 meeting and provided the revised text to the Drafting Group for review in August 2022. A copy of the revised [draft] standard can be found in [Agenda Item 6.3.1](#).
4. In addition, staff revisited the issues raised by constituents in response to [draft] IPSAS [X], *Transfer Expenses* (ED 72), and noted that many issues were already discussed with the IPSASB. Based on the IPSASB's decisions and instructions up to July 2022, the following issues have already been addressed by the IPSASB and reflected in the draft standard in [Agenda Item 6.3.1](#):
 - (a) The proposed scope of the standard;
 - (b) The interaction between transfer expenses and IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*;
 - (c) The complexity of ED 72;
 - (d) Potential implementation issues arising from the use of information from the transfer recipient in the transfer provider's accounting for transfer expenses;
 - (e) Difficulties in distinguishing between transfer expenses with and without performance obligations;
 - (f) Difficulties arising from the general use of the PSPOA model for transfer expenses; and
 - (g) Lack of clarity on when a transfer provider could recognize an asset from a transfer expense transaction.
5. Staff also considered if there were any residual issues that needed to be discussed with the IPSASB. This paper sets out the staff's considerations.

Analysis

6. Based on the IPSASB's decisions and instructions up to July 2022, staff revised the [draft] IPSAS, which retained the title "Transfer Expenses," to emphasize that binding arrangements are a fundamental concept for transfer expenses and to distinguish between transfer expense transactions with and without binding arrangements. Using this revised classification, staff reworked the recognition and measurement proposals for transfer expenses from transactions without binding arrangements (see paragraphs 18-20 of the [draft] standard) and the proposals for transfer

expenses from transactions with binding arrangements (see paragraphs 21-43, along with Applicable Guidance in paragraphs AG30-AG49).

7. In addition, staff considered and summarized the issues raised by respondents in the tables below and noted that all issues have either been discussed with the IPSASB at a prior meeting or raised in an agenda item at this meeting. In both cases, the issues have been addressed by the revised [draft] Transfer Expenses standard, so no additional changes are required:

SMC 1, Scope of ED 72	
Key Residual Issues Raised	Resolution
1. Constituents were unclear on the interaction with IPSAS 42.	<ul style="list-style-type: none"> The revised draft standard includes a scope exclusion of IPSAS 42 transactions.
2. Constituents were unclear on the relationship between ED 72 and the revenue EDs.	<ul style="list-style-type: none"> The [draft] Transfer Expenses standard was revised to focus on the transfer provider's perspective and on being conceptually consistent with the [draft] Revenue standard.

SMC 2, Distinguish Between Transfer Expenses with and without Performance Obligations	
Key Residual Issues Raised	Resolution
1. None – comments related to the complexity of the ED, performance obligations, and use of the PSPOA model.	<ul style="list-style-type: none"> These issues have already been addressed by the IPSASB.

SMC 3, Monitoring the Satisfaction of Performance Obligations	
Key Residual Issues Raised	Resolution
1. Constituents noted that an entity could choose to not monitor an arrangement to get a different accounting outcome under ED 72.	<ul style="list-style-type: none"> In the revised proposals, the transfer provider's ability to monitor progress is one of the factors to consider when determining if an arrangement is enforceable.

SMC 4, Recognition and Measurement Requirements for Transfer Expenses with Performance Obligations	
Key Residual Issues Raised	Resolution
1. None – constituents were unclear on when the transfer provider could recognize an asset from transfers expense transactions.	<ul style="list-style-type: none"> This issue has been addressed by the IPSASB.

SMC 5, Practical Difficulties in Applying the PSPOA Model

Key Residual Issues Raised	Resolution
1. Constituents noted that applying the proposed transitional provisions will be onerous and may result in practical difficulties.	<ul style="list-style-type: none"> See Agenda Item 6.2.5 for the revised transitional provisions proposed by staff.

SMC 6, Recognition and Measurement Requirements for Transfer Expenses without Performance Obligations

Key Residual Issues Raised	Resolution
1. None – comments related to performance obligations, recognition of an asset, the measurement of non-cash transfers, and the interaction with IPSAS 19.	<ul style="list-style-type: none"> These issues have been addressed by the IPSASB.

SMC 7, Symmetry with ED 71

Key Residual Issues Raised	Resolution
1. Some constituents noted that the lack of symmetry between transfer expenses and revenue was especially problematic for transfer without performance obligations, as an asset could not be recognized in these scenarios even though revenue could be deferred.	<ul style="list-style-type: none"> See response to SMC 4. Staff also noted that the revised draft transfer expense standard now focuses on consistency in how the underlying principles are applied across the standards.

SMC 8, Guidance on Appropriations

Key Residual Issues Raised	Resolution
1. The majority of responses agreed with the proposals for appropriations, but some constituents requested additional guidance, particular for multi-year funding arrangements.	<ul style="list-style-type: none"> Appropriations were previously discussed with the IPSASB at the June 2022 meeting. Staff is considering the addition of an illustrative example on appropriations which will include a multi-year scenario.

SMC 9, Disclosures	
Key Residual Issues Raised	Resolution
1. The majority of respondents were concerned with the amount and complexity of disclosures. Some constituents noted that the disclosure proposals mirrored revenue disclosures without considering the alignment with user needs.	<ul style="list-style-type: none">See Agenda Items 6.2.2 and 6.2.3 for the revised presentation and disclosure proposals.

Decision Required

8. Does the IPSASB agree with the staff [recommendation](#)?

Disclosure on Compelled Transactions

Question

1. Does IPSASB agree to retain the disclosure requirement for compelled transactions?

Recommendation

2. Staff recommend the IPSASB retain the disclosure requirement for compelled transactions, as proposed in Exposure Draft (ED) 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*, without changes.

Background

3. ED 70 Specific Matter for Comment (SMC) 5 asked constituents whether they agree with the proposed public sector specific disclosure requirement⁵ regarding transactions which an entity is compelled to enter into by legislation or other governmental policy decisions. This is the final set of responses to a SMC to be discussed by the Board.
4. All constituent comments agreed or partially agreed⁶ with the proposed disclosure on the basis that it captures a unique public sector transaction that may be material and prevalent in some jurisdictions. Respondents noted that this disclosure requirement will help support accountability and transparency, and would provide useful information for financial statement users about the existence and extent of such transactions entered into by a public sector entity.
5. A few respondents who partially agreed with the disclosure requested additional guidance to either enhance or clarify the disclosure requirement. This paper presents staff's analysis of these comments, in the context of the IPSASB's discussions and decisions in June 2022.⁷

Analysis

6. Staff summarized individual constituent comments in [Appendix 1](#), which requested that the IPSASB:
 - (a) Enhance or revise the proposed disclosure;
 - (b) Add or revise guidance to support the application of the disclosure; and
 - (c) Consider practical implications or other miscellaneous considerations.
7. Based on its analysis in [Appendix 1](#), the overwhelming support for the proposed disclosure, and the IPSASB's approach to revenue disclosures set in June 2022, staff conclude that no changes or additions are required. The disclosure requirement is now in paragraph 172 of [Agenda Item 6.3.2](#).

⁵ This disclosure requirement was in ED 70 paragraph 120, and ED 71 paragraphs 137 and 147.

⁶ In total, the IPSASB received 73 responses to ED 70. 19 respondents didn't respond to SMC 5. Of the remaining 54 respondents, a large majority agreed, and 0 respondents disagreed, with the disclosure.

⁷ Staff presented a detailed analysis and recommendations on disclosure requirements for revenue transactions in June 2022 Agenda Item 3.2.7. The IPSASB decided to retain all disclosure requirements proposed in the EDs, based on the key purpose of disclosures (outlined in the IPSASB's Conceptual Framework), and its principle-based approach (to align disclosures with the principles in the revenue accounting models).

Decision Required

12. Does the IPSASB agree with the staff [recommendation](#)?

Appendix 1 – Summary of Analysis of Constituent Comments

The following table summarizes staff's analysis of key constituent comments in response to ED 70 SMC 5 that partially agreed with the proposed disclosure requirement on compelled transactions. No respondents disagreed with the proposal.

Comment	Staff Analysis
Enhance or revise the disclosure	
To specify the extent to which another government's policy decision is involved when decision-making power is subdelegated	No change – As agreed in June 2022, the IPSASB is adding a Basis for Conclusion (BC) to clarify that an entity can choose to provide additional disclosures at their own discretion if it considers the information meets the overall disclosure objective and provides relevant, useful, and appropriate information for decision-making purposes.
To outline criteria to determine whether disclosure is required	No change – Staff and the Drafting Group already enhanced Application Guidance to better identify implicit price concessions to be disclosed based on the IPSASB's discussions and decisions related to collectability in March 2021 Agenda Item 5.2.4. Staff also worked closely with a jurisdiction in which these transactions are prevalent to ensure the revised guidance is clear and useful.
To eliminate possible inconsistencies between ED 70 paragraphs 120 and 121	No change – There is no inconsistency between the disclosure requirements in ED 70 paragraph 120 (specific to compelled transactions) and paragraph 121 (relating to transaction consideration allocated to unsatisfied or partially unsatisfied compliance obligations that remain at period end, and when the entity expects to satisfy these compliance obligations and recognize associated revenue).
Add or revise supporting guidance	
To clarify that the disclosure requirement <i>only</i> applies if it is not probable to collect payment of consideration, rather than all government services mandated by legislation or other policy decisions	No change – Existing guidance (proposed in the core text, AGs, and BCs of ED 70) is sufficiently clear that the disclosure is intended to provide information regarding specific arrangements an entity is compelled to enter into by legislation or other governmental policy decisions, where the collectability of consideration is not probable (e.g., the resource provider may not have the ability or intention to pay).
Add more examples to clarify the disclosure requirement	No change – Illustrative Example 46 (IE246-IE250) clearly and sufficiently (1) outlines an example of a transaction that a public sector entity is compelled to enter where the counterparty may or may not have the ability or intention to pay, and (2) illustrates the disclosure of such a transaction in accordance with the proposed disclosure requirement.
To better distinguish between price concessions and impairment	No change – Staff and the Drafting Group already enhanced Application Guidance based on the IPSASB's discussions and decisions in March 2021 on this topic.
To clarify that implicit price concessions differ from subsequent adjustments in accordance with IPSAS 41	

Assess practical implications	
To consider if qualitative disclosures are sufficient when quantification is not practical (e.g., information is not readily available to determine the ability or intention to pay, and to what extent)	No change – While quantification may be difficult in some cases, the requirement to disclose a quantification should be retained for accountability and transparency purposes. Authoritative guidance exists which requires that an entity is to estimate the amount of consideration it expects to collect.
To consider potential unintended consequences of disclosing information about collectability for compelled transactions (e.g., counterparties may perceive that there is leniency and they do not need to fully pay the entity)	No change – The IPSASB agreed in June 2022 to retain disclosures that meet the key purpose of disclosures (to provide financial information that supports accountability and is useful for decision-making purposes, as outlined in the Conceptual Framework). Based on this approach, the disclosure on compelled transactions should be retained as it enables financial statement users to understand the nature, amount, timing, and uncertainty of revenues arising from such compelled transactions that are material.
Other comments	
Move AG29 into core text to increase prominence	No change – This guidance does not illustrate a core principle; rather, it provides additional authoritative guidance on how the binding arrangement principle may apply to a unique type of transaction.
Consider replacing disclosure requirement with how foregone revenues increases the cost for customers settling their liability	No change – The intention behind this alternative but note that quantifying the impact of foregone revenue on customers settling their liability in a manner that meets the Qualitative Characteristics in the Conceptual Framework would be extremely difficult and potentially impractical, and thereby would not meet the disclosure objective.
Consider whether the rationale in IFRS15.BC194 applies, and whether the IPSASB should not provide detailed requirements	No change – The referenced IFRS Basis for Conclusions do not relate to implicit price concessions from compelled transactions specifically; rather, they relate more generally to variable consideration. Staff note that the IASB observed that an entity must use judgment and consider all relevant facts and circumstances in determining whether the entity has implicitly offered a price concession, which is consistent with the IPSASB's intention and emphasis in the proposed IPSAS.

Proposed Implementation Guidance Topics

Question

1. Does IPSASB agree with the Implementation Guidance topics proposed by staff?

Recommendation

2. Staff recommend that the IPSASB add Implementation Guidance to the proposed Revenue and Transfer Expenses IPSAS as presented in [Appendix 1](#).

Background

3. The IPSASB began reviewing constituent responses to the Revenue and Transfer Expenses Exposure Drafts (EDs) in December 2020. For this phase of the project, the IPSASB has focused on identifying and refining the accounting principles for revenue and transfer expenses accounting respectively, with the intention of revisiting non-authoritative guidance once the authoritative text (which presents accounting principles) has been finalized. As of this meeting, the IPSASB will have completed all principle-related discussions.
 - (a) *Revenue*: The authoritative text of the draft Revenue IPSAS ([Agenda Item 6.3.2](#)) reflects all of the IPSASB decisions on principle-related issues (subject to its decision on [Agenda Item 6.2.7](#)). This authoritative guidance has been reviewed extensively by the Drafting Group, and presented to the Board quarterly, since June 2021.
 - (b) *Transfer Expenses*: The authoritative text of the draft Transfer Expenses IPSAS ([Agenda Item 6.3.1](#)) reflects all of the IPSASB decisions on principle-related issues (subject to its decisions on Agenda Items [6.2.2](#), [6.2.3](#), and [6.2.5](#)). This authoritative guidance was first presented to and reviewed by the Drafting Group in August 2022.
4. Given the IPSASB's progress to date, staff began considering and proposing topics for which Implementation Guidance (IG) would be useful. Since certain principles and concepts are conceptually consistent across the two projects, staff conducted its analysis concurrently to ensure consistent non-authoritative guidance accompany the consistent principles. This analysis was also presented to the Drafting Group in August 2022.

Analysis

5. The Board has considered and used the following format of guidance in past projects, including IPSAS 41, *Financial Instruments* and ED 78, *Property, Plant, and Equipment*. For non-authoritative guidance:
 - (a) **Basis for Conclusions (BC)** – reflect IPSASB decisions⁸;
 - (b) **Implementation Guidance (IG)** – consider common implementation challenges widespread among public sector entities using a question-and-answer format; and
 - (c) **Illustrative Examples (IE)** – illustrate principles with case facts developed from practical examples that are prevalent globally among public sector entities.

⁸ Staff are drafting Basis for Conclusions on an ongoing basis to reflect IPSASB decisions.

6. With this distinction in mind, staff considered the principles and concepts presented in the authoritative text and identified which topics would benefit from additional IGs to support the principles presented for one or more of the following reasons:
- (a) The concept is complex and potentially difficult to apply in practice;
 - (b) It is an area of concern for constituents; or
 - (c) Staff and/or Board members have noted, during its past discussions and decisions on accounting principles, that additional non-authoritative guidance would be useful.

[Appendix 1](#) presents the list of IG topics and staff's rationale for both projects, which received support from the Drafting Group members.

Next Steps

7. Staff are of the view that the IEs to be included in the draft Revenue IPSAS and draft Transfer Expenses IPSAS should be identified after the IPSASB agrees on the list of IGs proposed in this paper. By nature, IEs are often misconstrued as authoritative rules in a principle-based IPSAS, and generally should be limited to an as-needed basis when:
- (a) The principles are not considered sufficiently clear based on the authoritative guidance, and IGs already drafted; and
 - (b) The fact pattern (to illustrate principles with general case facts) is prevalent globally amongst public sector entities.
8. Staff will continue to work with the Drafting Group to draft the agreed-upon IGs, consider whether to retain the IEs previously proposed in EDs 70-72, and compile a list of proposed IEs for the IPSASB review's in Q4 2022.⁹

Decision Required

9. Does the IPSASB agree with the staff [recommendation](#)?

⁹ The remaining Decisions and Instructions as of this September 2022 meeting relate to non-authoritative guidance to supplement decisions on principles in the authoritative guidance. This will be addressed as part of the non-authoritative work in Q4 2022.

Appendix 1 – Proposed Implementation Guidance

Staff considered the principles and concepts presented in the authoritative text and identified which topics would benefit from additional IGs to support the principles presented. The rationale is presented for each proposed IG topic in the tables below.

Revenue

Topic / Core Principle	Application Guidance exists? Agenda Item 6.3.2	Add Implementation Guidance? (If yes, why?)
Objective		No – Authoritative text is sufficient. This guidance typically does not require IGs.
Scope	AG2–AG8	
Definitions	AG9–AG11	
Identifying the Revenue Transaction	AG12–AG30	Yes – Staff propose two IGs, as this is a key component of the new draft Revenue IPSAS identified through the IPSASB discussions and decisions to date: <ul style="list-style-type: none"> Identifying whether a revenue transaction arises from a binding arrangement is integral to correctly applying the proposed revenue IPSAS. Considering changes after the inception of a BA <i>(already drafted and reviewed by the DG in Q2 2022, based on instructions from March 2022 Agenda Item 8.2.4)</i>.
<ul style="list-style-type: none"> Enforceability 	AG13–AG24	Yes – Staff propose two IGs: <ul style="list-style-type: none"> Determining whether an arrangement, and its rights and obligations are enforceable, is a complex area in the model. This IG can also highlight that repayment does not need to be an explicit requirement for the BA to be enforceable. Considering Revenue Subject to Appropriations <i>(this guidance was previously presented as AGs, and had been reviewed by the DG and Board at previous sessions. The Board decided to move this guidance to non-authoritative text in June 2022)</i>.
<ul style="list-style-type: none"> Parties in an Arrangement 	AG25–AG30	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Revenue from Transactions without Binding Arrangements		Yes – Staff propose two IGs to replace the ED 71 Illustrative Examples 2-8 (related to taxes and other compulsory contributions and levies) to minimize repetition and more clearly present non-authoritative guidance on: <ul style="list-style-type: none"> Recognizing revenue by identifying the taxable event. Measuring revenue.
Revenue from Transactions with Binding Arrangements		
<ul style="list-style-type: none"> Criteria for 5-Step Model 	AG31–AG38	No – Authoritative text is sufficient to address constituent comments.
<ul style="list-style-type: none"> Breach of Terms and Conditions 	AG39–AG41	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
<ul style="list-style-type: none"> Identifying Compliance Obligations 	AG42–AG55	Yes – Identifying goods or services as individual compliance obligations can be challenging in practice.
<ul style="list-style-type: none"> Initial Recognition of Revenue 	AG56–AG57	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
<ul style="list-style-type: none"> Existence and Recognition of Liability 	AG58–AG61	No – Authoritative text is sufficient to address constituent comments.

Agenda Item 6.2.8

Topic / Core Principle	Application Guidance exists? Agenda Item 6.3.2	Add Implementation Guidance? (If yes, why?)
• Satisfaction of Compliance Obligations	AG62–AG83	
○ Resource Provider Acceptance of Entity's Transfer of Goods or Services	AG84–AG87	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
○ Methods for Measuring Progress	AG88–AG97	Yes – Staff propose two IGs: <ul style="list-style-type: none"> • Determining a measure of progress that appropriately depicts an entity's satisfaction of its compliance obligation (such as SA/EE) can be complex. • Determining measure of progress for capital transfers and operating transfers can be difficult. This IG will complement the IEs the IPSASB agreed in June 2022.
• Right of Return	AG98–AG105	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
• Consideration Payable to Resource Provider	AG106–AG108	
• Allocation Based on Stand-Alone Values		Yes – applying guidance to determine suitable methods for estimating the stand-alone value of a good or service in non-exchange transactions can be challenging for public sector entities.
• Allocation of a Discount	AG109–AG111	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
• Determination of Stand-alone Value	AG112	
• Warranties	AG113–AG118	
• Principal vs Agent Considerations	AG119–AG127	
• Resource Provider Options for Additional Goods or Services	AG128–AG132	
• Resource Provider's Unexercised Rights	AG133–AG136	
• Non-refundable Upfront Fees	AG137–AG140	
Other Assets from Revenue Transactions with Binding Arrangement Costs		
Subsequent Measurement of Receivables		Yes – explaining how to subsequently measure non-contractual receivables using IPSAS 41, and why (<i>reviewed by the DG in August 2022, based on the Board's decision on June 2022 Agenda Item 3.2.6</i>)
Presentation		No – Authoritative text is sufficient. This guidance typically does not require IGs.
Disclosure	AG205–AG209	
Effective Date and Transition		
Application of Principles to Specific Transactions (capital transfers, services in-kind, etc.)	AG141–AG204	No – authoritative guidance and proposed IEs are sufficient.

Transfer Expenses

Topic / Core Principle	Application Guidance exists? Agenda Item 6.3.1	Add Implementation Guidance? (If yes, why?)
Objective		No – Authoritative text is sufficient. This guidance typically does not require IGs.
Scope	AG2-AG3	
Definitions	AG4-AG9	
Identifying the Transfer Expense Transaction	AG10	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Binding Arrangements and Enforceability		
• Binding Arrangement	AG11-AG13	Yes – IGs will be consistent revenue.
• Enforceability	AG14-AG25	
• Parties in a Binding Arrangement	AG26-AG29	No – Authoritative text is sufficient, and this is not a key area of constituent concern.
• Combination of Binding Arrangements		No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Transfer Expenses from Transactions without Binding Arrangements		
Recognition		No – Authoritative text is sufficient. The accounting model for transfer expenses from transactions without binding arrangements is relatively straightforward.
Measurement		
Transfer Expenses from Transactions with Binding Arrangements		
Identifying Transfer Rights	AG30-AG33	Yes – Based on March 2022 instructions.
Recognition of Transfer Expenses		
• Recognition at Inception of a Binding Arrangement	AG34-AG36	Yes – Based on April 2021 instructions.
• Derecognition of the Transfer Right Asset	AG37-AG40	
• Recognition of a Transfer Obligation Liability	AG41-AG45	
• Interaction Between Transfer Right Asset and Transfer Obligation Liability	AG46-AG47	
Modifications to a Binding Arrangement		No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Reclassification of a Transfer Right Asset		No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Measurement		
• Variable Consideration		No – Authoritative text is sufficient, as this section refers to an existing IPSAS.
• Allocating the Transaction Consideration to Transfer Rights	AG48-AG49	Yes – Based on March 2022 instructions.
• Changes in the Transaction Consideration		No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Impairment of a Transfer Right Asset		No – Authoritative text is sufficient, and this is not a key area of constituent concern.
Presentation		No – Authoritative text is sufficient. This guidance typically does not require IGs.
Disclosure		
Effective Date and Transition		
Application of Principles to Specific		

Agenda Item 6.2.8

Topic / Core Principle	Application Guidance exists? Agenda Item 6.3.1	Add Implementation Guidance? (If yes, why?)
Transactions		
• Capital Transfers	AG50-AG51	No – authoritative guidance and proposed IEs are sufficient.
• Appropriations		Yes – Based on June 2022 instructions.
• Transfers Subject to Appropriations		Yes – Based on June 2022 instructions.

Supporting Document 1 – [Draft] IPSAS [X], *Transfer Expenses*

[DRAFT] IPSAS [X], Transfer Expenses**TABLE OF CONTENTS**

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Objective

1. **The objective of this [draft] Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.**
2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and
 - (b) Sets out the accounting requirements for the transfer expense transaction.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for transfer expenses as defined in this [draft] Standard, including transfer expenses incurred for capital transfers. Transactions which result in the entity receiving goods, services or other assets directly in return for the resources¹ the entity transfers to the counterparty do not satisfy the definition of a transfer expense and are outside the scope of this [draft] Standard.**
4. **This [draft] Standard does not apply to:**
 - (a) **Operating leases as defined in IPSAS 43, *Leases*;**
 - (b) **Contributions from, and distributions to, owners;**
 - (c) **Service concession arrangements as defined in IPSAS 32, *Service Concession Arrangements: Grantor*;**
 - (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**
 - (e) **Concessionary loans as defined in IPSAS 41, *Financial Instruments*;**
 - (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**
 - (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts); and**
 - (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments).**
5. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards:
 - (a) If the other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18-43 to

¹ In this Standard, the term resource includes goods, services, and other assets, and may encompass cash or non-current assets.

account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

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

Paragraphs AG2-AG3 provide additional guidance on the scope of this Standard.

Definitions

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

The stand-alone consideration is the amounts that an entity intended to compensate the transfer recipient for fulfilling each of its obligations in a binding arrangement.

For the purposes of this [draft] Standard, the transfer consideration is the amount of total consideration which an entity expects to transfer.

A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 18-28 provide additional guidance).

A transfer obligation is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

A transfer obligation liability is the liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.

An entity is an entity that provides a good, service, or other asset to another entity without directly receiving any good, services or other asset in return.

A transfer recipient 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.

A transfer right is an entity's enforceable right to have the transfer recipient fulfill its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A transfer right asset is the asset recognized for the existence of one or more transfer rights arising from a binding arrangement.

7. The following terms are defined in [draft] IPSAS [X], *Revenue*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS [X]:

- (a) Binding arrangement;
- (b) Capital transfer;
- (c) Compliance obligation;
- (d) Contract;
- (e) Control of an asset;
- (f) Taxes; and

(g) Third-party beneficiary.

A constructive obligation is defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Expenses are defined in IPSAS 1, *Presentation of Financial Statements*.

Paragraphs AG5-AG9 provide additional guidance on the definitions in this Standard.

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.

Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether the transaction results in an amount that satisfies the asset recognition criteria. The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement, when applicable, provides inputs into the assessment of the asset recognition criteria.**
9. An entity will apply the guidance on recognition and measurement in this [draft] Standard as follows:
 - (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18-20; and
 - (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21-29.

Paragraph AG10 provides additional guidance on identifying the transfer expense transaction.

Binding Arrangements and Enforceability

10. 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 stated obligations.
11. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the satisfaction of the other parties' stated obligations.
12. 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.
13. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors, and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

14. A binding arrangement has at least one present obligation because its enforceability holds the entity accountable for fulfilling the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.
15. A binding arrangement is wholly unfulfilled if both of the following criteria are met:
 - (a) The entity has not yet paid, and is not yet obligated to pay, consideration to the transfer recipient in exchange for the transfer recipient fulfilling any of its stated obligations in the binding arrangement; and
 - (b) The transfer recipient has not fulfilled any of its stated obligations in the binding arrangement.
16. At the inception of a binding arrangement and when the binding arrangement is wholly unfulfilled, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to fulfill their obligations under the arrangement.

Paragraphs AG11-AG29 provide additional guidance on binding arrangements.

Combination of Binding Arrangements

17. An entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:
 - (a) The binding arrangements are negotiated as a package with a single objective;
 - (b) The amount of resources to be transferred in one binding arrangement depends on the price or performance of the other binding arrangement; or
 - (c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

18. **For transfer expenses without binding arrangements, an entity shall recognize expenses as follows:**
 - (a) **At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognized provision; or**
 - (b) **If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the**

resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.²

Measurement

19. **When a provision is recognized in the situations described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.**
20. **When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the previously controlled resources.**

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

21. **At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:**
 - (a) **A right to have the transfer recipient fulfill an obligation that is separate from the fulfillment of other obligations in the binding arrangement; or**
 - (b) **A series of rights to have the transfer recipient fulfill its obligation that have substantially the same characteristics and risks and that have the same pattern of fulfillment.**

Paragraphs AG30-AG33 provide additional guidance on identifying transfer rights.

Recognition of Transfer Expenses

22. **When an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient fulfilling its obligations, the transferred resources are derecognized,² and a transfer right asset is recognized for the transfer rights arising from the binding arrangement.**
23. **Conversely, when a transfer recipient fulfills its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognized when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35-37).**
24. **For transfer expenses with binding arrangements, an entity shall recognize expenses:**
 - (a) **When (or as) a transfer right asset is derecognized; or**
 - (b) **When a transfer obligation liability is recognized.**
25. **The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.**

² Prior to derecognition of the resources to be transferred, an entity should consider paragraph 27(d) of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the asset, which could be an indication of impairment.

Paragraphs AG34-AG47 provide additional guidance on the recognition of transfer expenses.

Modifications to a Binding Arrangement

26. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the arrangement. 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. An entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.
27. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:
- (a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights, because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and
 - (b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.
28. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 27, an entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement. The entity shall determine the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognized shall be recognized in surplus or deficit as at the date of the modification.

Reclassification of a Transfer Right Asset

29. After the recognition of a transfer right asset, the transfer recipient may become unable or unwilling to fulfill its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the refund of previously transferred cash arising from the terms of the binding arrangement, the legal system in the jurisdiction, or other circumstances, the entity shall reclassify the transfer right asset to a financial asset. Subsequent to its reclassification, the entity shall measure the financial asset in accordance with IPSAS 41, *Financial Instruments*.

Measurement

30. **An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35-37).**
31. **When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to fulfill its obligation, the entity shall, at recognition, measure the resulting transfer**

right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.

32. **When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.**
33. **When the transfer recipient has fulfilled its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.**
34. To determine the transfer consideration, an entity shall assume that the transfer recipient will fulfill its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

Variable Consideration

35. The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the entity's obligation to transfer the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it fulfills its obligations in the binding arrangement within a specified period.
36. For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in IPSAS 19.
37. If the entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.

Allocating the Transfer Consideration to Transfer Rights

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**
39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:
 - (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or
 - (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).

Paragraphs AG48-AG49 provide additional guidance on allocating the transfer consideration to transfer rights.

Changes in the Transfer Consideration

40. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.
41. An entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognized as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.
42. An entity shall account for a change in the transfer consideration that arises from a modification to a binding arrangement in accordance with paragraphs 26-28.

Impairment of a Transfer Right Assets

43. After the recognition of a transfer right asset, the transfer recipient may become unable or unwilling to fulfill its obligations under the binding arrangement. When this occurs, and if the transfer right asset is not reclassified to a financial asset as noted in paragraph 29, the entity shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Presentation

Display

44. [Pending IPSASB Decision from September 2022.]

Disclosure

45. [Pending IPSASB Decision from September 2022.]

Effective Date and Transition

Effective Date

46. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and shall apply [draft] IPSAS [X], *Revenue*, at the same time.**
47. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

48. **An entity shall apply this [draft] Standard using one of the following two methods:**
 - (a) **Prospectively to transfers arising from transactions with and without binding arrangements occurring on or after the date of initial application; or**

- (b) **Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

DRAFT

Application Guidance

AG1. This application guidance is organized into the following categories:

- (a) Scope (paragraphs AG2-AG3);
- (b) Definitions (paragraphs AG4-AG9);
- (c) Identifying the Transfer Expense Transaction (paragraph AG10);
- (d) Binding Arrangements and Enforceability (paragraphs AG11-AG29);
- (e) Identifying Transfer Rights (paragraphs AG30-AG33);
- (f) Recognition of Transfer Expenses (paragraphs AG34-AG47);
- (g) Allocating the Transfer consideration to Transfer Rights (paragraphs AG48-AG49); and
- (h) Specific Application Issues (paragraphs AG50-AG51).

Scope (paragraphs 3-5)

- AG2. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good or service to another entity without directly receiving any good or service in return.
- AG3. This [draft] Standard does not address transactions where an entity receives any good or service in return for the good or service that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (paragraphs 6-7)

Binding Arrangement

- AG4. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

Transfer Expense

- AG5. This [draft] Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which an entity (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, an individual or another entity) without directly receiving any good, service, or other asset in return.
- AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset to be received directly from the transfer recipient. In determining whether a transaction meets the definition of a transfer expense, the entity does not directly receive any good, service, or other asset in return for transferring resources to the transfer recipient where the only asset that will be recognized by the entity as a result of the binding arrangement is a transfer right asset.

Transfer Obligation

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations.

Transfer Recipient

AG8. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organization, an individual or another entity) that receives a good or service from another entity without directly providing any good or service to that entity. While the transfer recipient does not provide any good or service to the entity, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the entity.

Transfer Right and Transfer Right Asset

AG9. An entity's transfer right is the enforceable right to have the transfer recipient fulfil its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient fulfilling its obligations within the binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

- (a) A transfer right asset is not a good or service;
- (b) The transfer right asset arises because of timing differences between the fulfillment of respective obligations in a binding arrangement, not as a result of any transfer to the entity.
- (c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the fulfillment by the transfer recipient of its obligations in the binding arrangement.

Identifying the Transfer Expense Transaction (paragraphs 8-9)

AG10. This [draft] Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Binding Arrangements and Enforceability (paragraphs 10-16)

Binding Arrangement

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.

- AG12. In accordance with paragraph 11, 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. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.
- AG13. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient fulfill its obligations. This standard refers to these rights as transfer rights.

Enforceability

- AG14. The interdependent rights and obligations in a binding arrangement 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 the entity has the ability to enforce. 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.
- AG15. 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 there are alternative processes with 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 systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a 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 recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the binding arrangement.
- AG16. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce their respective rights and obligations through various mechanisms. An arrangement is enforceable by another party if the agreement includes:
- (a) Distinct rights and obligations for each involved party; and
 - (b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.
- AG17. A key characteristic of a binding arrangement is the ability of each party to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient)

must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the entity) must be able to enforce fulfillment of the obligations assumed by the transfer recipient.

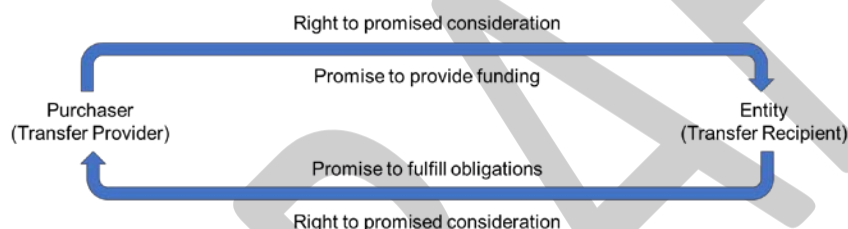
- AG18. When an entity assesses the enforceability of a binding arrangement, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not fulfill their agreed-upon obligation(s) in the binding arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for fulfilling their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
- AG19. Enforceability arises from the compulsion by a legal system, 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 through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG20. 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 fulfill the agreed-upon obligations in the arrangement.
- AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to fulfill the agreed-upon obligations in the arrangement may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfil the promises established within the arrangement or to seek redress should those promises not be fulfilled.
- AG22. 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 Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity this may result in a valid enforcement mechanism.
- AG23. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no present obligation on the entity to provide such funding. However, if the transfer recipient is 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 potential reduction in funding could be considered a valid enforcement mechanism.
- AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances.

AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Parties in a Binding Arrangement

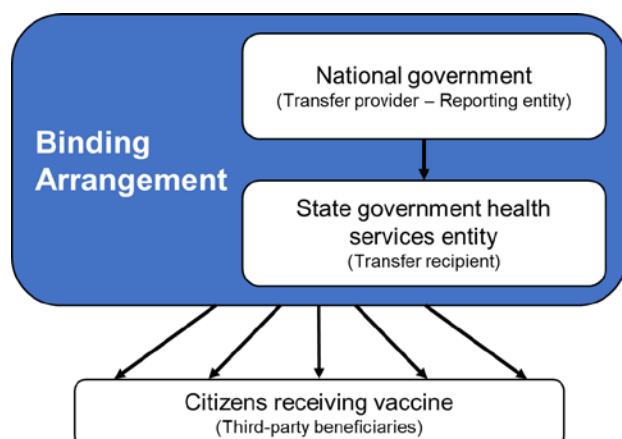
AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. That is, at a minimum, the entity must be able to enforce fulfillment of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG28. 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 transfer recipient to deliver goods and services because they are not parties to the binding arrangement.

AG29. However, for these multi-party arrangements to be classified as transfer expenses with performance obligations, the entity must have the ability to force the transfer recipient to deliver goods and services to the third-party beneficiaries. In these multi-party arrangements the transfer recipient is not an agent of the entity because the transfer recipient gains control of the consideration from the entity and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram.



Identifying Transfer Rights (paragraph 21)

- AG30. Transfer rights provide the basis of recognition and measurement for transfer expenses. This [draft] Standard requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.
- AG31. A transfer right is identified as a distinct right that can be enforced separately from other rights in the arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.
- AG32. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.
- AG33. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient fulfill its obligation that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

Recognition of Transfer Expenses (paragraphs 22-25)

Recognition at Inception of a Binding Arrangement

- AG34. In accordance with paragraph 16, at the inception of a binding arrangement and when the binding arrangement is wholly unfulfilled, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unfulfilled binding arrangement are interdependent and cannot be separated. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.
- AG35. Individual transfer rights and transfer obligations are recognized as items (assets, liabilities and expenses depending on their nature) only as one or more parties to the binding arrangement fulfils their stated obligations. An entity shall account for these items in accordance with paragraphs 22-25.
- AG36. Where parts of the binding arrangement remain equally unfulfilled, the entity shall not recognize any asset, liability, or expense for the equally unfulfilled parts of the binding arrangement. Such

equally unfulfilled parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

- AG37. Typically, a transfer recipient's fulfillment (or lack of fulfillment) of their obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient fulfils its obligations, the entity's corresponding transfer right is extinguished.
- AG38. A binding arrangement may specify that as the transfer recipient fulfils its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete fulfillment of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete fulfillment of its obligation, the transfer right asset shall be expensed immediately.
- AG39. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient fulfils its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's fulfillment of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgment and consider materiality.
- AG40. If the entity and the transfer recipient both fulfill their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognized upon the transfer of resources.

Recognition of a Transfer Obligation Liability

- AG41. If the transfer recipient has fulfilled its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the fulfillment of the obligation completed to date. As the transfer recipient has already fulfilled its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized liability.
- AG42. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete fulfillment of the obligation. In assessing whether a transfer

recipient has a right to payment for fulfillment of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for fulfillment of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to fulfill its obligations as promised.

- AG43. In some binding arrangements, an entity may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the entity might not have any right to terminate the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to fulfill its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to fulfill its obligations and require the entity to pay the consideration promised in exchange for those obligations being fulfilled. In those circumstances, a transfer recipient has a right to payment for fulfillment of its obligations completed to date because the transfer recipient has a right to continue to fulfill its obligations in accordance with the binding arrangement and to require the entity to fulfill its transfer obligations.
- AG44. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.
- AG45. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for fulfillment of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for fulfillment of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration transferred by the entity is refundable for reasons other than the transfer recipient failing to fulfill its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liability

- AG46. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognized, until the carrying amount of the transfer right asset is zero. At that point, any further fulfillment of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.
- AG47. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognized and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognized as a transfer right asset.

Allocating the Transfer consideration to Transfer Rights (paragraphs 38-39)

- AG48. Where a binding arrangement specifies the amount of transfer consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration or a significant financing component).

- AG49. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for fulfilling its obligations when negotiating the binding arrangement.

Application of Principles to Specific Transactions

Capital Transfers

- AG50. A binding arrangement for a capital transfer may require the transfer recipient to return resources to the entity if the asset is not used as specified for an agreed period. Such arrangements may include a single transfer right for the construction or purchase of the asset, or may include separate transfer rights for the construction or purchase of the asset and for its operation. The entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset as well as its construction or purchase.
- AG51. Where the transfer consideration is only intended to compensate the transfer recipient for the construction or purchase of the asset, the entity does not have a transfer right in respect of the operation of the asset.

Supporting Document 2 – [Draft] IPSAS [X], *Revenue*

[DRAFT] IPSAS [X], REVENUE

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Objective

1. The objective of this 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 revenue transactions.
2. To meet the objective in paragraph 1, this Standard:
 - (a) Requires an entity to consider the terms of the transaction, and all relevant facts and circumstances, to determine the type of revenue transaction; and
 - (b) Sets out the accounting requirements to account for the revenue transaction.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**
 - (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 within the scope of IPSAS 40, *Public Sector Combinations*;**
 - (c) **The accounting for contributions from owners;**
 - (d) **Lease contracts within the scope of IPSAS 43, *Leases*;**
 - (e) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts¹;**
 - (f) **Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, *Financial Instruments*;**
 - (g) **Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits* and IPSAS 40,;**
 - (h) **Non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;**
 - (i) **Gains from the sale of non-financial assets that are not an output of an entity's activities and within the scope of IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*;**

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

- (j) Changes in the value of current and non-current assets arising from subsequent measurement;
- (k) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and
- (l) The extraction of mineral resources.

Definitions

4. The following terms are used in this Standard with the meanings specified:

For the purposes of this Standard, a **binding arrangement** is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. A **contract** is a type of **binding arrangement**. (Paragraphs AG9-AG30 provide additional guidance.)

A **binding arrangement asset** is an entity's right to consideration for 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 **binding arrangement liability** is an entity's obligation to 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 resource provider.

A **capital transfer** is an inflow, that arises from a binding arrangement, of cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG142 provides additional guidance.)

A **compliance obligation** 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.

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

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

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

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

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

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

Other compulsory contributions and levies is cash or another asset, paid or payable to 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.

A **purchaser** is a resource provider that 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 for its own consumption (paragraph AG26 provides additional guidance). A **customer** is a type of a **purchaser**.

A **resource provider** is the party that provides a resource to the entity. (Paragraphs AG25-AG30 provides additional guidance.)

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

The **stand-alone value** (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.

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

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

Taxes are economic benefits or service potential compulsorily paid or payable to 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.

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

For the purposes of this [draft] Standard, the **transaction consideration** is the amount of consideration to which an entity expects to be entitled.

A **transfer** is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

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

Revenue

5. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, 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 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.

6. Where an entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognized as a cost of the transaction. For example, if 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 (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.

Taxes

7. 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 4 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 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.
8. 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.
9. 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 create binding arrangements between the government and the taxpayer. A binding arrangement creates both enforceable rights and obligations on both parties to the arrangement and not a single right and obligation on each party.
10. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Identify the Revenue Transaction

11. Public sector revenues may arise from transactions without binding arrangements (i.e., revenue without binding arrangements) or with binding arrangements. 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:

- (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.

12. **At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement.**

Identify whether a Binding Arrangement Exists

13. **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.**
14. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. 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.
15. 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.
16. 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 vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of the resource provider or the nature of the entity's promise in the binding arrangement).
17. An entity will apply the recognition and measurement criteria in this Standard as follows:
- (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 20-56; and
 - (b) Revenue from transactions with binding arrangements are accounted for by applying paragraphs 57-148.
18. Paragraphs AG9-AG30 provides additional guidance on binding arrangements.

Revenue from Transactions without Binding Arrangements

Recognition

19. An entity's revenue transaction without a binding arrangement may confer a right or an obligation. Any entity shall determine if:

- (a) Any of its rights in its transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 20–26; and
- (b) Any of its obligations in its transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 28–30.

Analysis of the Initial Inflow of Resources

- 20. 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.³ 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 – 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.
- 21. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's 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 AG144, entities may, but are not required, to recognize services in-kind.
- 22. 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 entity will recognize as a liability until the obligations are satisfied. Contributions from owners do not give rise to revenue. Each type of inflow of resources is analyzed, and any contributions from owners are accounted for separately.

Right to an Inflow of Resources

- 23. 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 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

³ 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.

of flows of resources, and its expectations regarding the taxpayer or resource provider's ability and intention to pay.⁴

24. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by an entity.⁵
25. In circumstances where an agreement is required before resources can be transferred, an entity will not identify the resources as controlled until such time as the entity's right in the agreement is enforceable, because the entity cannot exclude or regulate the access of the resource provider to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the resource provider's access to those resources.

Contingent Assets

26. 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).

Subsequent Consideration of Asset Recognition Criteria

27. An entity shall continue to assess the arrangement, and any received inflow of resources, to determine whether the criteria for asset recognition in paragraph 23 are subsequently met.

Existence and Recognition of a Liability

28. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.
29. An obligation that meets the definition of a liability shall be recognized as a liability when, and only when:
 - (a) It is probable that a transfer of resources embodying future economic benefits or service potential will be required if it does not satisfy the obligation(s); and
 - (b) A reliable estimate can be made of the amount of the obligation.
30. For a liability to exist, it is necessary that the entity cannot avoid 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 revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s)).

⁴ For example, where (a) a government (resource provider) agrees to transfer funds to a public sector entity and the entity is not required to satisfy any specific obligations (b) the entity is able to enforce its right in the agreement 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.

⁵ For example, if a public school were destroyed by a forest fire and a government 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.

Recognition of Revenue Transactions without Binding Arrangements

31. **When an entity recognizes an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 20–27, it recognizes revenue based on the nature of the requirements in its revenue transaction. An entity shall recognize revenue from a transaction without a binding arrangement:**
- (a) When (or as) the entity satisfies any obligations associated with the inflow of resources that met the definition of a liability; or
 - (b) Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.

Measurement

Measurement of Assets from an Inflow of Resources

32. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition is satisfied.**
33. After initial recognition, an entity shall subsequently measure:
- (a) A receivable asset:
 - (i) Within the scope of IPSAS 41, *Financial Instruments* as a financial asset in accordance with IPSAS 41; or
 - (ii) Not in the scope of IPSAS 41 on the same basis as a financial asset at amortized cost in accordance with IPSAS 41, by analogy.
 - (b) All other assets as prescribed by other IPSAS.

Measurement of Revenue Transactions without Binding Arrangements

34. **Revenue from transactions without 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 entity.**
35. When, as a result of a revenue transaction without a binding arrangement, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 32.

Measurement of Liabilities

36. The amount recognized as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this 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.
37. 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.

Taxes

38. **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.**
39. Resources arising from taxes satisfy the definition of an asset when the 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 at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
40. 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], *Transfer Expenses*). 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.
41. 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.
42. Taxes are a transaction without 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.

The Triggering Event for Taxes and Other Compulsory Contributions and Levies

43. Similar types of taxes are levied in many jurisdictions. The 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;
 - (c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

- (d) Customs duty is the movement of dutiable goods or services across the customs boundary;
 - (e) Death duty is the death of a person owning taxable property; and
 - (f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.
44. Similar types of other compulsory contributions and levies occur in many jurisdictions. The 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:
- (a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);
 - (b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and
 - (c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes

45. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 38, 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 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 44), notwithstanding that the 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.

Measurement of Assets Arising from Taxation Transactions

46. Assets arising from taxation transactions are measured at their transaction 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 entity, which is consistent with most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts).. 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.
47. 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:

- (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.
48. 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, *Accounting Policies, Changes in Accounting Estimates and Errors*.
49. 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.

Measurement of Taxes with Collection Uncertainty

50. 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 when the uncertainty associated with the variable consideration is subsequently resolved.
51. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:
- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties.

- (b) The uncertainty about the amount of 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 entity's experience (or other evidence) with similar types of 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 arrangements in similar circumstances.
- (e) The transaction has a large number and broad range of possible consideration amounts.

Expenses Paid Through the Tax System and Tax Expenditures

- 52. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**
- 53. 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.
- 54. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**
- 55. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.
- 56. 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 entities irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1, *Presentation of Financial Statements* 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

Accounting for the Binding Arrangement

57. **An entity shall account for a binding arrangement using the binding arrangement accounting model if all of the following criteria are met:**

- (a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**
- (b) **The entity can identify each party's rights under the binding arrangement;**
- (c) **The entity can identify the payment terms for the 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 AG31-AG33 provide additional guidance); and**
- (e) **It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in compliance with the terms of the binding arrangement (paragraphs AG34-AG38 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the resource provider's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 116).**

Paragraphs AG9-AG30 provide additional guidance on identifying the binding arrangement.

58. If a binding arrangement meets the criteria in paragraph 57 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 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 for the satisfaction of any remaining compliance obligations in the binding arrangement.
59. When a binding arrangement does not meet all of the criteria in paragraph 57, the entity shall recognize any consideration received as revenue only when either of the following events has occurred:
- (a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or
 - (b) The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.

An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 57 are subsequently met.

60. For the purpose of applying this [draft] Standard, an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unsatisfied if both of the following criteria are met:
- (a) The entity has not yet satisfied any of its compliance obligations in the binding arrangement; and
 - (b) The entity has not yet received, and is not yet entitled to receive, any consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement.
61. If an entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the binding arrangement accounting model, the entity shall also consider whether it should be combined with other binding arrangements, and there are any modifications to its binding arrangement.

Combination of Binding Arrangements

62. An entity shall combine two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the 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 consideration or performance of the other binding arrangement; or
 - (c) The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 68-77.

Modifications to a Binding Arrangement

63. A modification to a binding arrangement is a change in the scope or 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.
64. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or 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 consideration. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a

binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 73-77 on estimating variable consideration and paragraphs 120-122 on constraining estimates of variable consideration.

65. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:
 - (a) The scope of the binding arrangement increases because of the addition of promises that are distinct (in accordance with paragraphs 73-77); and
 - (b) The consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone values of the additional 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 value of an additional good or service for a discount that the 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 resource provider.
66. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) in whichever of the following ways is applicable:
 - (a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph 68(b)) is the sum of:
 - (i) The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognized as revenue; and
 - (ii) The consideration promised as part of the modification to a binding arrangement.
 - (b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single 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 consideration, and on the entity's measure of progress towards complete satisfaction of the 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).

If the remaining 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) compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Duration of a Binding Arrangement

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

Identifying Compliance Obligations in a Binding Arrangement

68. **At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a 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:**
- (a) **A good or service (or a bundle of goods or services) that is distinct; or**
 - (b) **A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use or transfer to the purchaser or third-party beneficiary (see paragraph 70).**

Paragraphs AG42-AG55 provide additional guidance on identifying compliance obligations.

69. **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.**
70. 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:
- (a) Each distinct good or service in the series would meet the criteria in paragraph 93 to be a compliance obligation satisfied over time; and
 - (b) In accordance with paragraphs 99-100, the same method would be used to measure the entity's progress towards complete satisfaction of the compliance obligation.

Promises to Use Resources

71. A binding arrangement 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 compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement 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 resource provider that the entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.
72. Compliance obligations do not include activities that an entity must undertake to 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 service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

Identifying Distinct Promises to Use Resources

73. 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 in a binding arrangement is distinct if both of the following criteria are met:
- (a) The 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 that party (i.e., the good or service is capable of being distinct); and
 - (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 is distinct within the context of the binding arrangement).

See paragraphs AG52–AG55 for additional guidance.

74. 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 73(a) by considering the nature of its compliance obligation.
- (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.
 - (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.

See paragraph AG26 for additional guidance.

75. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph 73(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 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 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 entity or another entity) or a resource that the 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 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 party can generate the economic benefits or service potential from the good or service on its own or with other readily available resources.

76. 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 73(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:
- (a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the 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 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 satisfy its promise by acquiring each of the goods or services internally, or transferring each of the goods or services, independently.
77. 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 compliance obligation.

Initial Recognition of Revenue Transactions with a Binding Arrangement

78. 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.
79. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with IPSAS 19. Paragraphs AG56-AG57 provide additional guidance on unsatisfied binding arrangements.

Analysis of the Initial Inflow of Resources

80. An entity may receive an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should apply

paragraphs 20-26, and recognize an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of an asset and the recognition criteria are met.

Existence and Recognition of a Liability

81. Public sector entities typically receive resources from governments, other entities. When an entity recognizes an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.
82. 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
 - (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.

See additional guidance in paragraphs AG58-AG61.

83. A compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when:
 - (a) It is probable that a transfer of resources embodying future economic benefits or service potential will be required if it does not satisfy the compliance obligation(s); and
 - (b) A reliable estimate can be made of the amount of the obligation.
84. For a liability to exist, it is necessary that the entity cannot avoid 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 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)).
85. 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 entity will still recognize the gross amounts in its financial statements: that is, the entity will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.
86. If 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.
87. The entity shall continue to recognize its liability until one of the events in paragraph 59 are subsequently met.

Recognition of Revenue Transactions with a Binding Arrangement

88. **When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meet the definition and recognition criteria of an asset in accordance with paragraphs 20-26, the entity shall recognize:**

- (a) Revenue for any satisfied compliance obligations in respect of the same inflow; and
 - (b) A liability for any unsatisfied compliance obligations in respect of the same inflow.
89. 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 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 81-87 that was recognized upon receipt of an inflow of resources. Paragraphs AG62-AG97 provides additional guidance on the satisfaction on performance compliance obligations.
90. An entity satisfies a compliance obligation by using resources to acquire a promised good or service (i.e., an asset) to for use internally, or to transfer a promised good or service to a resource provider or third-party beneficiary. An asset is acquired for internal use or transferred when (or as) the entity receiving the asset obtains control of that asset.
91. 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;
 - (d) Using the asset to settle liabilities or reduce expenses;
 - (e) Selling or exchanging the asset;
 - (f) Pledging the asset to secure a loan; and
 - (g) Holding the asset.
92. For each compliance obligation identified in accordance with paragraphs 68–77, an entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time (in accordance with paragraphs 93–95) or satisfies the compliance obligation at a point in time (in accordance with paragraphs 96). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Acquire Goods or Service for Internal Use

Satisfied Over Time

93. An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue 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 paragraphs AG63–AG64);

- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG65); or
 - (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 94) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 95).
94. 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 compliance obligation. Paragraphs AG66–AG68 provide guidance for assessing whether an asset has an alternative use to an entity.
95. 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 consideration for any compliance obligation completed to date in accordance with paragraph 93(c). The right to consideration for 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 any compliance obligation completed to date if the binding arrangement is terminated by the 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 AG69–AG73 provide guidance for assessing the existence and enforceability of a right to consideration and whether an entity's right to payment would entitle the entity to be paid for its any compliance obligation completed to date.

Satisfied at a Point in Time

96. If a compliance obligation is not satisfied over time in accordance with paragraphs 93–95, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which the entity obtains or transfers control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 90–91.

Compliance Obligations to Transfer Goods or Service to Another Party

Satisfied Over Time

97. An entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:
- (a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG75–AG76);
 - (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG77); or

- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 94) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 95).

Satisfied at a Point in Time

98. If a compliance obligation is not satisfied over time in accordance with paragraphs 93–95, an entity satisfies the 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 compliance obligation, the entity shall consider the requirements for control in paragraphs 90–91 (and AG185–AG187 if the entity has a repurchase agreement). In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:
- (a) The entity has a present right to 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 retains legal title solely as protection against the purchaser's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.
 - (c) The entity has transferred physical possession of the asset—the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the purchaser has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a purchaser or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the purchaser controls. Paragraphs AG185–AG198, AG199–AG200, and AG201–AG204 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.
 - (d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the purchaser has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate compliance obligation in addition to the 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 compliance obligation to provide maintenance services related to the transferred asset.

- (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 paragraphs AG84–AG87.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

- 99. For each compliance obligation satisfied over time in accordance with paragraphs 93–95 (for compliance obligations to acquire goods or service for internal use) or paragraph 97 (for compliance obligations to transfer goods or service to another party), an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict an entity's performance to satisfy its compliance obligation.
- 100. An entity shall apply a single method of measuring progress for each compliance obligation satisfied over time and the entity shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

Methods for Measuring Progress

- 101. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG88–AG97 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.
- 102. 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:
 - (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 compliance obligation.
- 103. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the 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, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reasonable Measures of Progress

104. An entity shall recognize revenue for a compliance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the compliance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.
105. 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 compliance obligation, but the entity expects to recover the costs incurred in satisfying the 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 compliance obligation.

Subsequent Consideration of Asset Recognition Criteria

106. When an inflow of resources arrangement with a resource provider within the scope of this Standard does not meet the criteria in paragraph 20 and an entity receives an inflow of resources from the resource provider, the entity shall recognize the inflow received as revenue only when either of the following events has occurred:
- (a) The entity has no compliance obligation; or
 - (b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

107. **When (or as) a compliance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 120–122) that is allocated to that compliance obligation.**

Measurement of Assets from an Inflow of Resources

108. **An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition is satisfied (see paragraphs 110–133). An entity shall subsequently measure the asset in accordance with paragraph 33.**

Measurement of Liabilities

109. The amount recognized as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this 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. An entity shall apply paragraph 37 in determining its best estimate of the liability.

Determining the Transaction Consideration

110. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of consideration to which an entity expects to be entitled 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 may include fixed amounts, variable amounts, or both.

111. 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.
112. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:
 - (a) Variable consideration (see paragraphs 114-118 and 123);
 - (b) Constraining estimates of variable consideration (see paragraphs 120–122);
 - (c) The existence of a significant financing component in the binding arrangement (see paragraphs 124-129);
 - (d) Non-cash consideration (see paragraphs 130–133); and
 - (e) Consideration payable to a resource provider (see paragraphs AG106–AG108).
113. For the purpose of determining the transaction consideration, an entity shall assume that the 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.

Variable Consideration

114. If the consideration in the binding arrangement includes a variable amount, an entity shall estimate the amount of the consideration to which the entity expects to collect from the resource provider.
115. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.
116. The variability relating to the 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 consideration is variable if either of the following circumstances exists:
 - (a) The resource provider has a valid expectation arising from an entity's customary practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the entity will offer or accept a reduced amount due to a concession. Depending on the jurisdiction, sector or resource provider this offer may be referred to as a discount, rebate, refund or credit.
 - (b) Other facts and circumstances indicate that the entity's intention, when entering into the arrangement with the resource provider, is to offer a price concession to the resource provider.

Paragraph AG36 provides additional guidance on implicit price concessions.

117. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:
- (a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics; or
 - (b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either completes construction of infrastructure on schedule or not).
118. An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration which the entity expects to be entitled to. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses 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.

Refund Liabilities

119. An entity shall recognize a refund liability if the entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider, relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction consideration). The refund liability (and corresponding change in the transaction 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 paragraphs AG98–AG105.

Constraining Estimates of Variable Consideration

120. An entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 117 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.
121. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- (a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or promised good or service.
 - (b) The uncertainty about the amount of 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 entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.
 - (d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.
 - (e) The transaction has a large number and broad range of possible consideration amounts.
122. An entity shall apply paragraphs AG182–AG184 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

123. At the end of each reporting period, an entity shall update the estimated transaction 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 consideration in accordance with paragraphs 145–148.

The Existence of a Significant Financing Component in the Binding Arrangement

124. In determining the transaction consideration, an entity shall adjust the amount of 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 resource provider or the 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.
125. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the price that a resource provider would have received if the 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 resource provider or third-party beneficiary). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:
- (a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services promised in the compliance obligation; and
 - (b) The combined effect of both of the following:

- (i) The expected length of time between when the entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and
 - (ii) The prevailing interest rates in the relevant market.
- 126. Notwithstanding the assessment in paragraph 125, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:
 - (a) The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.
 - (b) A substantial amount of the inflow promised by the resource provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the resource provider or the entity.
 - (c) The difference between the consideration and the cash price of the transfer (as described in paragraph 125) arises for reasons other than the provision of finance to either the resource provider or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the terms might provide the entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.
- 127. As a practical expedient, an entity need not adjust the consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.
- 128. To meet the objective in paragraph 125 when adjusting the consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its 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 resource provider or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the resource provider's credit risk).
- 129. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements 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.

Non-Cash Consideration

- 130. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its fair value as at the time when the criteria for asset recognition is satisfied.

131. 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 value of the goods or services to be acquired for internal use or transferred to the resource provider or third-party beneficiary (or class of resource provider) for the consideration.
132. The fair value of the non-cash consideration may vary because of the form of the consideration. If the fair value of the non-cash consideration promised by a resource provider varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 120–122.
133. If a resource provider contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's 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 resource provider.

Allocating the Transaction Consideration to Compliance Obligations

134. **The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.**
135. To meet the allocation objective, an entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis in accordance with paragraphs 137–141, except as specified in paragraphs AG109–AG111 (for allocating discounts) and paragraphs 142–144 (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.
136. Paragraphs 137–144 do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 142–144 may apply if an entity promises to acquire or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph 68(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values

137. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, an entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.
138. The stand-alone 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 resource provider. The best evidence of a stand-alone 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 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 value of that good or service.
139. If a stand-alone value is not directly observable, an entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation

objective in paragraph 134. When estimating a stand-alone price, an entity shall consider all information (including entity-specific factors, information about the resource provider or class of 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.

140. Suitable methods for estimating the stand-alone value of a good or service include, but are not limited to, the following:
- (a) Adjusted market assessment approach—an entity could evaluate the market in which it acquires or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, 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 compliance obligation and, if applicable, add an appropriate margin for that good or service.
 - (c) Residual approach—an entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be acquired or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 139, the stand-alone price value of a good or service only if one of the following criteria is met:
 - (i) The entity acquires or provides the same good or service to different 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 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).
141. A combination of methods may need to be used to estimate the stand-alone values of the goods or services 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 values. For example, an entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective in paragraph 134 and the requirements for estimating stand-alone values in paragraph 139.

Allocation of Variable Consideration

142. 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, 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 in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph 68(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).
143. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation in accordance with paragraph 68(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 compliance obligation or acquire or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or acquiring or transferring the distinct good or service); and
 - (b) Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective in paragraph 134 when considering all of the compliance obligations and payment terms in the binding arrangement.
144. The allocation requirements in paragraphs 134–141 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 143.

Changes in the Transaction Consideration

145. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled for satisfying its compliance obligation.
146. An entity shall allocate to the compliance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.
147. An entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation in accordance with paragraph 68(b) only if the criteria in paragraph 143 on allocating variable consideration are met.
148. An entity shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 63–66. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 145–147 to allocate the change in the transaction consideration in whichever of the following ways is applicable:
- (a) An entity shall allocate the change in the transaction consideration to the compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 66(a).

- (b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall allocate the change in the transaction consideration to the compliance obligations in the modified binding arrangement (i.e., the compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Other Assets from Revenue Transactions with Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

- 149. **An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.**
- 150. The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).
- 151. 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 resource provider regardless of whether the binding arrangement is obtained.
- 152. As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement

- 153. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 17, or IPSAS 31), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:**
 - (a) **The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);**
 - (b) **The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) compliance obligations in the future; and**
 - (c) **The costs are expected to be recovered.**
- 154. For costs incurred in fulfilling a binding arrangement that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.
- 155. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:
 - (a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to a purchaser or third-party beneficiary);

- (b) Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary);
- (c) Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools and equipment used in fulfilling the binding arrangement);
- (d) Costs that are explicitly chargeable to the resource provider under the binding arrangement; and
- (e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

156. An entity shall recognize the following costs as expenses when incurred:

- (a) General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 155);
- (b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;
- (c) Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfillment); and
- (d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

Amortization and Impairment

- 157. An asset recognized in accordance with paragraph 149 or 153 shall be amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 153(a)).
- 158. An entity shall update the amortization to reflect a significant change in the entity's expected timing of 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, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 159. 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 149 or 153 exceeds:
 - (a) The remaining amount of consideration that the entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less
 - (b) The costs that relate directly to satisfying the compliance obligations and that have not been recognized as expenses (see paragraph 155).
- 160. For the purposes of applying paragraph 159 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction consideration (except for the requirements in paragraphs 120–122 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

161. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 149 or 153, 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 159, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 149 or 153 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.
162. An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 159 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

Presentation

Display

163. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.
164. If a resource provider transfers cash or another asset, or entity has a right to a transfer that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer is made or the transfer is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received a transfer (or an amount of a transfer is due) from the resource provider.
165. If an entity performs by satisfying a compliance obligation before the transfer is received or before the transfer is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to a transfer of resources for satisfying a compliance obligation. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph 178(b)).
166. A receivable is an entity's right to consideration that is unconditional. A right to a consideration is unconditional if only the passage of time is required before consideration is due. For example, an entity would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 33, an entity shall subsequently measure a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable, 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).
167. This [draft] Standard uses the terms 'binding arrangement asset' and 'binding arrangement liability' but does not prohibit a entity from using alternative descriptions in the statement of financial position

for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

168. **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**
- (a) **Its revenues from transactions without binding arrangements (see paragraphs 173–177);**
 - (b) **Its revenues from transactions with binding arrangements (see paragraphs 178–188);**
 - (c) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements (see paragraphs 189–191); and**
 - (d) **Any assets recognized from the costs to obtain or fulfill a binding arrangement with a purchaser in accordance with paragraph 90 or 94 (see paragraphs 192–193).**
169. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. See paragraphs AG205–AG206 for additional guidance.
170. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
- (a) **The amount of revenue from transactions without performance obligations recognized during the period, showing separately, and by major classes:**
 - (i) **Taxes;**
 - (ii) **Other compulsory contributions and levies; and**
 - (iii) **Transfers; and**
 - (iv) **Compliance obligations in a binding arrangement.**
 - (b) **The amount of receivables recognized at reporting date in respect of revenue;**
 - (c) **The amount of liabilities recognized at reporting date in respect of transferred assets subject to compliance obligations;**
 - (d) **The amount of liabilities recognized at reporting date in respect of concessionary loans that are subject to requirements on transferred assets;**
 - (e) **The existence and amounts of any advance receipts in respect of transactions; and**
 - (f) **The amount of any liabilities forgiven.**
171. **An entity shall disclose in the notes to the general purpose financial statements:**

- (a) **The accounting policies adopted for the recognition of revenue;**
- (b) **The judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of revenue;**
- (c) **For major classes of revenue from transactions, the basis on which the transaction price consideration of inflowing resources was measured;**
- (d) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;**
- (e) **The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and**
- (f) **Qualitative and quantitative information about services in-kind that have been recognized.**

172. In the public sector, an entity may have a revenue transaction where the entity compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, constitutional authority, legally sanctioned process and policy decisions, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from taxes or fines in non-binding arrangement revenue transactions, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:

- (a) A description of the legislation or policy decision which compels a party in the revenue transaction to satisfy its obligation to the entity in the revenue transaction;
- (b) The amount of revenue from these transactions that was recognized after application of paragraphs 27 and 106 of this [draft] Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 116;
- (c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 120, or as the amount from these transactions that was not recognized as revenue as it was considered to be an implicit price concession from the application of paragraph 116; and
- (d) If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 116, an entity shall disclose the following:
 - (i) The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and
 - (ii) The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession.

Specific Disclosure for Revenue without Binding Arrangements

173. As noted in paragraph 47, in many cases an entity will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example,

statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.

174. Paragraph 170(e) requires transfer recipients to disclose the existence of advance receipts. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.
175. Paragraph 171(e) requires entities to make disclosures about the nature and type of major classes of bequests, gifts, and donations, it has received. These inflows of resources are received at the discretion of the resource provider, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly.
176. Transfer recipients that do not recognize service in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.
177. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, transfer recipients may elect to recognize these services in-kind and measure them at their fair value. Paragraph 176 strongly encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Specific Disclosure for Revenue with Binding Arrangements

178. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:
 - (a) Revenue recognized from binding arrangements with compliance obligations, separately from its other sources of revenue; and
 - (b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements, which the entity shall disclose separately from impairment losses from other binding arrangements.
179. Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognized in respect of compliance obligations assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 170(c).

Disaggregation of Revenue

180. An entity shall disaggregate revenue recognized from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG207–AG209 when selecting the categories to use to disaggregate revenue.
181. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 180) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

182. An entity shall disclose all of the following:
 - (a) The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements, if not otherwise separately presented or disclosed;
 - (b) Revenue recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and
 - (c) Revenue recognized in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).
183. An entity shall explain how the timing of satisfaction of its compliance obligations (see paragraph 185(a)) relates to the typical timing of payment (see paragraph 185(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.
184. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:
 - (a) Changes due to public sector combinations;
 - (b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;
 - (c) Impairment of a binding arrangement asset;
 - (d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and
 - (e) A change in the time frame for a compliance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Compliance Obligations

185. An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

- (a) When the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement;
- (b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 120–122);
- (c) The nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (i.e., if the entity is acting as an agent);
- (d) Obligations for returns, refunds and other similar obligations; and
- (e) Types of warranties and related obligations.

Transaction Consideration Allocated to the Remaining Compliance Obligations

186. An entity shall disclose the following information about its remaining compliance obligations:

- (a) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and
- (b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 186(a)(a), which the entity shall disclose in either of the following ways:
 - (i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or
 - (ii) By using qualitative information.

187. As a practical expedient, an entity need not disclose the information in paragraph 186 for a compliance obligation if either of the following conditions is met:

- (a) The compliance obligation is part of a binding arrangement that has an original expected duration of one year or less; or
- (b) The entity recognizes revenue from the satisfaction of the compliance obligation in accordance with paragraph AG92.

188. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 187 and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 186. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 120–122).

Significant Judgments in the Application of this [draft] Standard

Determining the Timing of Satisfaction of Compliance Obligations

189. For compliance obligations that an entity satisfies over time, an entity shall disclose both of the following:
- (a) The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and
 - (b) An explanation of why the methods used provide a faithful depiction of the use or transfer of goods or services.
190. For compliance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a compliance obligation is satisfied.

Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations

191. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:
- (a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;
 - (b) Assessing whether an estimate of variable consideration is constrained;
 - (c) Allocating the transaction consideration, including estimating stand-alone values of promised goods or services, and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and
 - (d) Measuring obligations for returns, refunds and other similar obligations.

Assets Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Resource Provider

192. An entity shall describe both of the following:
- (a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a resource provider that includes compliance obligations (in accordance with paragraph 149 or 153); and
 - (b) The method it uses to determine the amortization for each reporting period.
193. An entity shall disclose all of the following:
- (a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 149 or 153), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and
 - (b) The amount of amortization and any impairment losses recognized in the reporting period.

Practical Expedients

194. If an entity elects to use the practical expedient in either paragraph 127 (about the existence of a significant financing component) or paragraph 152 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

195. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after [DD/MM/YYYY]. Earlier application is encouraged. If an entity applies this Standard for periods beginning before [DD/MM/YYYY], it shall disclose that fact and apply [draft] IPSAS [X], *Transfer Expenses at the same time.***
196. When an entity adopts the accrual basis IPSAS as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

197. For the purposes of the transition requirements in paragraphs 198–204:
- (a) The date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard; and
 - (b) A completed binding arrangement is a binding arrangement for which
 - (i) The entity has satisfied all the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*; or
 - (ii) The entity has satisfied all of its promises identified in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*.
198. An entity shall apply this [draft] Standard using one of the following two methods:
- (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph 200; or
 - (b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 202–204.
199. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied, 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 entity applies this [draft] Standard retrospectively in accordance with paragraph 198(a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.
200. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively in accordance with paragraph 198(a)):

- (a) For completed binding arrangements, an entity need not restate binding arrangements that:
 - (i) Begin and end within the same annual reporting period; or
 - (ii) Are completed binding arrangements at the beginning of the earliest period presented.
 - (b) For completed binding arrangements that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - (c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 65–66. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - (i) Identifying the satisfied and unsatisfied compliance obligations;
 - (ii) Determining the transaction consideration; and
 - (iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.
 - (d) For all reporting periods presented before the date of initial application, an entity needs not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognize that amount as revenue.
201. For any of the practical expedients in paragraph 200 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:
- (a) The expedients that have been used; and
 - (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
202. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 198(b)), the entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this [draft] Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).
203. An entity applying this [draft] Standard retrospectively in accordance with paragraph 198(b) may also use the practical expedient described in paragraph 200(c), either:
- (a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or
 - (b) For all modifications to a binding arrangement that occur before the date of initial application.
- If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 201.

204. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 198(b)):
- (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to IPSAS 9, IPSAS 11, and IPSAS 23; and
 - (b) An explanation of the reasons for significant changes identified.

Withdrawal of Other Standards

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

- (a) IPSAS 9, *Revenue from Exchange Transactions*, issued in 2001;
- (b) IPSAS 11, *Construction Contracts*, issued in 2001; and
- (c) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* issued in 2006.

IPSAS 9, IPSAS 11, and IPSAS 23 remain applicable until [draft] IPSAS [X] is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X], *Revenue*.

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

- (a) Scope (paragraphs AG2–AG8);
- (b) Definitions (paragraphs AG9–AG11);
- (c) Identifying the Revenue Transaction (paragraphs AG12–AG30);
 - (i) Enforceability (paragraphs AG13–AG24);
 - (ii) Parties in an Arrangement (paragraphs AG25–AG30);
- (d) Revenue from a Transaction with a Binding Arrangement (paragraphs AG31–AG140);
 - (i) Criteria for the Binding Arrangement Accounting Model (paragraphs AG31–AG38);
 - (ii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG39–AG41);
 - (iii) Identifying Compliance Obligations (paragraphs AG42–AG55);
 - (iv) Initial Recognition of Revenue (paragraphs AG56–AG57);
 - (v) Existence and Recognition of a Liability (paragraphs AG58–AG61);
 - (vi) Satisfaction of Compliance Obligations (paragraphs AG62–AG83);
 - (vii) Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraphs AG84–AG87);
 - (viii) Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs AG88–AG97);
 - (ix) Right of Return for a Transfer of Goods or Services to Another Party (paragraphs AG98–AG105);
 - (x) Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs AG106–AG108);
 - (xi) Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraphs AG109–AG111);
 - (xii) Determination of Stand-alone Value (paragraph AG112);
 - (xiii) Warranties (paragraphs AG113–AG118);
 - (xiv) Principal Versus Agent Considerations (paragraphs AG119–AG127);
 - (xv) Resource Provider Options for Additional Goods or Services (paragraphs AG128–AG132);
 - (xvi) Resource Providers' Unexercised Rights (paragraphs AG133–AG136);
 - (xvii) Non-refundable Upfront Fees (and Some Related Costs) for a Transfer of Goods or Services to Another Party (paragraphs AG137–AG140);
- (e) Application of Principles to Specific Transactions (paragraphs AG141–AG204);

- (i) Capital Transfers (paragraphs AG142–AG143);
- (ii) Services In-Kind (paragraphs AG144–AG150);
- (iii) Pledges (paragraph AG151);
- (iv) Advance Receipts of Transfers (paragraph AG152);
- (v) Concessionary Loans (paragraphs AG153–AG154);
- (vi) Measurement of Transferred Assets (paragraph AG155);
- (vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG156–AG159);
- (viii) Fines (paragraphs AG160–AG161);
- (ix) Bequests (paragraphs AG162–AG164);
- (x) Gifts, Donations, including Goods In-kind (paragraphs AG165–AG169);
- (xi) Licensing (paragraphs AG170–AG184);
- (xii) Repurchase Agreements (paragraphs AG185–AG198);
- (xiii) Consignment Arrangements (paragraphs AG199–AG200);
- (xiv) Bill-and-Hold Arrangements (paragraphs AG201–AG204); and
- (f) Disclosure (paragraphs AG205–AG209).

Scope (paragraph 3)

- AG2. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without a binding arrangement or with binding arrangements. The definitions in paragraph 4 establish the key elements in applying the scope of the [draft] Standard.
- AG3. 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.
- AG4. This [draft] Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard (see paragraphs 149–162). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this [draft] Standard.

Scope Exclusions

- AG5. This standard does not apply to public sector combinations. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more

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

- AG6. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Contributions from owners are defined in IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition, and to consider the substance rather than the form of the transaction. A contribution from owners may be evidenced by, for example:
- (d) 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;
 - (e) 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
 - (f) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.
- AG7. Agreements that (a) 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) 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.
- AG8. 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 entity will pay fixed distributions to the resource provider, with a return of the 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, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

Definitions (paragraphs 4–10)

Binding Arrangement

- AG9. A binding arrangement, which is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement is able to enforce their respective rights and obligations conferred on them in the arrangement.
- AG10. This [draft] Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of binding arrangements (or 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 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.

- 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.

Identifying the Revenue Transaction (paragraphs 11–18)

- AG12. An entity shall consider the terms of its revenue transaction 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 arrangements with similar characteristics and in similar circumstances.

Enforceability

- AG13. The interdependent rights and obligations in a binding arrangement 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.
- AG14. 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 there are alternative processes with 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 resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for 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 entity to obligate the 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.
- AG15. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce their respective rights and obligations. Enforceability of a binding arrangement can arise from various mechanisms. An arrangement is enforceable if the agreement includes:
- (a) Clearly specified rights and obligations for each involved party; and

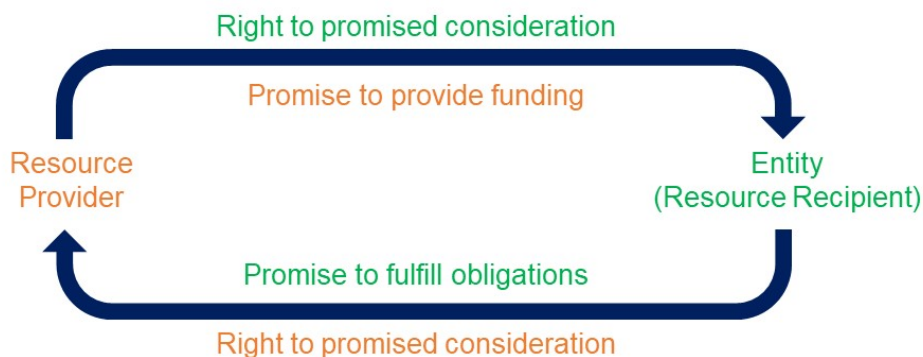
- (b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.
- AG16. When an entity assesses the enforceability of a binding arrangement, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit 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.
- AG17. Enforceability arises from the compulsion by a legal system, 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 through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG18. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.
- AG19. 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 satisfy the stated obligations in the arrangement may be enforceable. The key determining factor is that each party must be able to enforce both the rights and obligations conferred on them in the binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfil the promises established within the arrangement or to seek redress should these promises not be satisfied.
- AG20. 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 obligations by an entity, this may result in a valid enforcement mechanism.
- AG21. An entity may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other 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 compliance obligation on the 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.
- AG22. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider's ability to reduce future funding and its past history of doing so.

- AG23. A statement of intent or public announcement by a 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 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.
- AG24. 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 resource provider indicates that the 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 the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and 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.

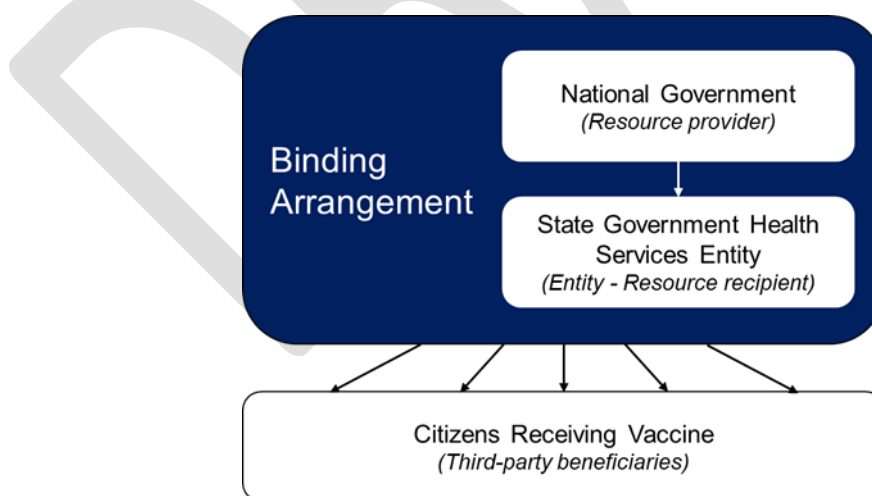
Parties in an Arrangement

- AG25. 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.
- AG26. For public sector specific transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for 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:
- (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 these cases, three-party arrangements (discussed below), the resource provider has a binding arrangement with and 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 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 satisfied.

AG27. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must be able to enforce 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:



AG28. 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 parties to the binding arrangement. However, for these multi-party arrangements to be within the scope of this [draft] Standard the resource provider must have the ability to force the entity to deliver distinct goods and services to the specified third-party beneficiaries. In these multi-party arrangements the entity (resource recipient) is not an agent of the resource provider because the entity gains control of the consideration from the resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:



AG29. 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 resource provider's ability to compel the entity to satisfy its obligations.

- AG30. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

Revenue from a Transaction with a Binding Arrangement

Criteria for the Binding Arrangement Accounting Model (paragraphs 57–61)

Economic Substance

- AG31. 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:
- (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred: or
 - (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The differences in (a) and (b) are significant relative to the fair value of the assets exchanged.
- AG32. 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.
- AG33. For the purposes of this [draft] Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 57(e)

- AG34. 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.
- AG35. 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).
- AG36. 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 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 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 110 and 116(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 57(e).

AG37. 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.

AG38. 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 57(e) is not met. In these circumstances, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraph 59 of this [draft] Standard.

Breach of Terms and Conditions of a Binding Arrangement

AG39. 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;
- (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.

AG40. If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the entity will recognize a liability for the amount to be refunded to the resource provider and derecognize any revenue recognized during the reporting period.

AG41. 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;
- (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
- (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.

Identifying Compliance Obligations (paragraphs 68–77)

Promises to Use Resources

AG42. 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 paragraph AG48 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.

- AG43. This Standard requires an entity to appropriately identify any compliance obligations when it enters into a binding arrangement, 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.
- AG44. In the public sector, identifying compliance obligations may require significant judgment. A necessary condition for identifying a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:
- (a) The nature or type of the promise to use resources;
 - (b) The cost or value of the distinct goods or services from the promise to use resources;
 - (c) The quantity of the distinct goods or services from the promise to use resources; and
 - (d) The period over which the promise to use resources occurs.
- AG45. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a 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 is often an internally imposed measure of performance and not a compliance obligation.

Promises to Use Resources Internally

- AG46. 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 resources provided to a public sector entity in a binding arrangement may include:
- (a) Transfers from national governments to provincial, state or local governments;
 - (b) Transfers from state/provincial governments to local governments;
 - (c) Transfers from governments to other public sector entities;
 - (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
 - (e) Transfers from donor agencies to governments or other public sector entities.
- AG47. 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 compliance obligations may be imposed by requirements in binding arrangements

establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts.

Promises to Use Resources for Another Party

- AG48. 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, an entity will consider whether it maintains control of the resources or the resources are converted into a good and/or service and are required to be transferred to the 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.
- AG49. 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.
- AG50. Depending on the binding arrangement, 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 paragraphs AG119–AG127);
 - (d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose);
 - (e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities);
 - (f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);
 - (g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG119–AG127);
 - (h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);
 - (i) Constructing, manufacturing or developing an asset on behalf of a purchaser; (for example, a government works department building a recreational facility for another municipality);

- (j) Granting licenses (see ED 70 paragraphs AG170–AG184); and
- (k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see ED 70 paragraphs AG128–AG132).

AG51. An entity earns and recognizes revenue when it satisfies a 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. Paragraph 4 provides indicators of control, which include:

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

Identifying Distinct Promises to Use Resources for Another Party

AG52. 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.

AG53. 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 is distinct if both of the following criteria are met (see paragraph 73):

- (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
- (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).

AG54. 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, the promise to use resources to transfer goods or services can generate other resources that provides rights to economic benefits and/or service potential when the entity's transfer of the good or service to party receiving the goods or services contributes to the purchaser achieving its service delivery objectives.

AG55. Compliance obligations that require the transfer of promised goods and services to the purchaser or a third-party beneficiary are separately identifiable (i.e., distinct) from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that promise is satisfied. Therefore, it is possible to have several compliance obligations in one binding arrangement.

Initial Recognition of Revenue (paragraph 78)

- AG56. In accordance with paragraph 78, 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. 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.
- AG57. 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 unperformed parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Existence and Recognition of a Liability (paragraphs 81–87)

- AG58. 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.

A Present Obligation

- AG59. 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.

As a Result of Past Events

- AG60. 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.

A Transfer of Resources

- AG61. 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 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 resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events).

Satisfaction of Compliance Obligations (paragraphs 88-105)

Compliance Obligations to Acquire Goods or Services for Internal Use

AG62. Paragraph 93 provides that a 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 paragraphs AG63-AG64);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG65); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 94) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 95).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (see paragraph 93(a))

AG63. For some types of compliance obligations, the assessment of whether 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 daily volunteer services) in which the receipt and simultaneous consumption of the economic benefits or service potential by the entity as it satisfies its compliance obligation can be readily identified.

AG64. For other types of compliance obligations, an entity may not be able to readily identify whether 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 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 satisfy the remaining compliance obligation. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

- (a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and
- (b) Presume that another entity satisfying the remainder of the 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 compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (see paragraph 93(b))

AG65. In determining whether the entity controls an asset as it is created or enhanced in accordance with paragraph 93(b), an entity shall apply the requirements for control in ED 70 paragraphs 90-92, 96, and AG185-AG198. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Satisfaction does not Create an Asset with an Alternative Use (see paragraph 93(c))

AG66. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 93(c) and 94, 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 entity. The possibility of the binding arrangement with the 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.

AG67. 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 resource provider could enforce its rights if the entity sought to direct the asset for another use that would not be in compliance with the terms of the binding arrangement.

AG68. 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 the terms of the binding arrangement or are located in remote areas.

Right to Consideration for Performance Completed to Date (see paragraph 93(c))

AG69. In accordance with paragraphs 93(c) and 95, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its compliance obligations completed to date in the event that the 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 compliance obligations completed to date would be an amount that approximates the total cost of the goods or services acquired to date for no charge or for a nominal charge, or the price of the goods or services acquired to date (for example, recovery of the costs incurred by an entity in satisfying the 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 satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

- (a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the 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.

- AG70. An entity's right to consideration for compliance obligations completed to date need not be a present unconditional right to consideration. In many cases, an entity will have an unconditional right to consideration only at an agreed-upon milestone or upon complete satisfaction of the compliance obligation. In assessing whether it has a right to consideration for compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain consideration for 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.
- AG71. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to acquire the goods or services in compliance with the binding arrangement and require the resource provider to pay the consideration promised in exchange for those satisfied compliance obligations. In those circumstances, an entity has a right to consideration for 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 resource provider to perform its obligations (which include paying the promised consideration).
- AG72. In assessing the existence and enforceability of a right to consideration for 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:
- (a) Legislation, administrative practice or legal precedent confers upon the entity a right to consideration for performance to date even though that right is not specified in the binding arrangement with the resource provider;
 - (b) Relevant legal precedent indicates that similar rights to 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 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 consideration in similar binding arrangements, an entity would continue to have a right to consideration to date if, in the binding arrangement with the resource provider, its right to consideration for performance to date remains enforceable.
- AG73. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to consideration for compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a resource provider, the payment schedule might not necessarily provide evidence of the entity's right to consideration for compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Compliance Obligations to Transfer Goods or Services to Another Party

AG74. Paragraph 97 provides that a 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 paragraphs AG75–AG76);
- (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG77); or
- (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG78–AG80) and the entity has an enforceable right to consideration for performance completed to date (see paragraphs AG81–AG83).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (see paragraph 97(a))

AG75. For some types of compliance obligations, the assessment of whether a 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.

AG76. For other types of compliance obligations, an entity may not be able to readily identify whether a 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 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 satisfy the remaining compliance obligation to the 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:

- (a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and
- (b) Presume that another entity satisfying the remainder of the 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 compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (see paragraph 97(b))

AG77. In determining whether a resource provider controls an asset as it is created or enhanced in accordance with paragraph 97(b), an entity shall apply the requirements for control in paragraphs 90–91, 98, and AG185–AG187. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Satisfaction does not Create an Asset with an Alternative Use (see paragraph 97(c))

- AG78. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 97(c) and 94, 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 entity. The possibility of the binding arrangement with the 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.
- AG79. 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 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 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.
- AG80. 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 resource provider or are located in remote areas.

Right to Consideration for Performance Completed to Date (see paragraph 97(c))

- AG81. In accordance with paragraphs 97(c) and 95, an entity has a right to consideration for 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 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 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 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:
- (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 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.
- AG82. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts

to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding 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 resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to consideration for 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 resource provider to perform its obligations (which include paying the promised consideration).

- AG83. An entity should also consider paragraphs AG70, AG72 and AG73 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.

Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraph 98)

- AG84. In accordance with paragraph 98(e), a resource provider's acceptance of an asset may indicate that the resource provider has obtained control of the asset. Resource provider acceptance clauses may allow the 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 resource provider obtains control of a good or service.
- AG85. If an entity can objectively determine that control of a good or service has been transferred to the resource provider in accordance with the agreed-upon specifications in the binding arrangement, then resource provider acceptance is a formality that would not affect the entity's determination of when the resource provider has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of 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 resource provider accepts the asset, the entity still must consider whether there are any remaining compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately.
- AG86. 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 resource provider has obtained control until the entity receives acceptance by the resource provider. That is because in that circumstance the entity cannot determine that the 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.
- AG87. If an entity delivers products to a purchaser or third-party beneficiary for trial or evaluation purposes and the resource provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the resource provider until either the resource provider accepts the product or the trial period lapses.

Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs 99–100/105)

AG88. Methods that can be used to measure an entity's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:

- (a) Output methods (see paragraphs AG89–AG93); and
- (b) Input methods (see paragraphs AG94–AG97).

Output Methods

AG89. Output methods recognize revenue on the basis of direct measurements of the value to the entity receiving the outputs from the promises satisfied to date relative to the distinct goods or services from the remaining 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.

AG90. A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the resource provider can compel the entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a 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 resource provider requires the government science agency to report back at each stage. Each of these stages 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).

AG91. 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 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 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 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 resource provider that are not included in the measurement of the output.

AG92. 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 resource provider in an amount that corresponds directly with the value to the resource provider of the entity's 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.

- AG93. 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

- AG94. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labor hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that 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.
- AG95. An eligible expenditure is a 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 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 redress).
- AG96. The resource provider needs to be able to confirm that the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the entity needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures was incurred by the entity and directly related to the entity's satisfaction of the promises in the specified manner.
- AG97. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the 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 paragraph 99, do not depict the entity's performance in 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 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 compliance obligation).
 - (b) When a cost incurred is not proportionate to the entity's progress in satisfying the 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 compliance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:

- (i) The good is not distinct;
- (ii) The 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 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 AG119–AG127).

Right of Return for a Transfer of Goods or Services to Another Party (paragraph 119)

AG98. In some binding arrangements, an entity transfers control of a product to a resource provider and also grants the resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

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

AG99. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

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

AG100. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

AG101. An entity shall apply the requirements in paragraphs 110–123 (including the requirements for constraining measurement in paragraphs 120–122) to determine the amount of 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 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 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 and make a corresponding change to the transaction consideration and, therefore, in the amount of revenue recognized.

- AG102. 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).
- AG103. An asset recognized for an entity's right to recover products from a 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.
- AG104. Exchanges by 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.
- AG105. Binding arrangements in which a resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG113–AG118.

Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs 112(e))

- AG106. Consideration payable to a resource provider includes cash amounts that an entity pays, or expects to pay, to the resource provider (or to other parties that purchase the entity's goods or services from the resource provider). Consideration payable to a 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 resource provider). An entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service (as described in paragraphs 73–77) that the resource provider transfers to the entity. If the consideration payable to a resource provider includes a variable amount, an entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 114–122.
- AG107. If consideration payable to a resource provider is a payment for a distinct good or service from the 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 resource provider exceeds the fair value of the distinct good or service that the entity receives from the resource provider, then the entity shall account for such an excess as a reduction of the transaction consideration. If the entity cannot reasonably estimate the fair value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.
- AG108. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:
- (a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and

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

Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraph 135)

AG109. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone 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 paragraph AG110 that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

AG110. An entity shall allocate a discount entirely to one or more, but not all, compliance obligations in the binding arrangement if all of the following criteria are met:

- (a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;
- (b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone values of the goods or services in each bundle; and
- (c) The discount attributable to each bundle of goods or services described in paragraph AG110(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 compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

AG111. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with paragraph AG110, an entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service in accordance with paragraph 140(c).

Determination of Stand-alone Value (paragraphs 138)

AG112. In the public sector, the determination of a stand-alone value for a compliance obligation in accordance with paragraph 138 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 value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph 140(b).

Warranties for Goods or Services Transferred to Another Party

- AG113. 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 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 resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications.
- AG114. If a 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 compliance obligation in accordance with paragraphs 68–77 and allocate a portion of the transaction consideration to that compliance obligation in accordance with paragraphs 134–144.
- AG115. If a resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19 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.
- AG116. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:
- (a) Whether the warranty is required by law—if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect 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 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 compliance obligation.
- AG117. 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 compliance obligation. Therefore, an entity shall allocate the transaction 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 compliance obligation.

AG118. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a 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 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 compliance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

Principal versus Agent Considerations

AG119. 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 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 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 paragraphs 73–77 and AG52–AG55). If a binding arrangement with a 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.

AG120. To determine the nature of its promise (as described in paragraph AG119), the entity shall:

- (a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph AG50)); and
- (b) Assess whether it controls (as described in paragraph 91) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG121. 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 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 compliance obligation on its behalf.

AG122. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

- (a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.
- (b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.
- (c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For

example, if an entity provides a significant service of integrating goods or services (see paragraph 76(a)) provided by another party into the specified good or service for which the 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.

AG123. When (or as) an entity that is a principal satisfies a 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.

AG124. An entity is an agent if the entity's 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 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.

AG125. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG121) include, but are not limited to, the following:

- (a) The entity is primarily responsible for 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 resource provider specifications). If the entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the 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 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.
- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the 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.

AG126. The indicators in paragraph AG125 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.

AG127. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the 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 compliance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Resource Provider Options for Additional Goods or Services

AG128. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG129. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the 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 resource provider in that geographical area or market). If the option provides a material right to the resource provider, the 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.

AG130. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the 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 resource provider exercises the option to purchase the additional goods or services.

AG131. Paragraph 135 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a 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 resource provider would obtain when exercising the option, adjusted for both of the following:

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

AG132. If a 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 value of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided

and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Resource Providers' Unexercised Rights

AG133. In accordance with paragraph 164, upon receipt of a prepayment from a resource provider, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognize its binding arrangement liability (and recognize revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG134. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG135. 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 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 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 paragraphs 120–122 on constraining estimates of variable consideration.

AG136. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a 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-refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

AG137. In some binding arrangements, an entity charges a 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.

AG138. To identify 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 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 paragraph 72). 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 resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG129.

AG139. 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 compliance obligation in accordance with paragraphs 68-77.

AG140. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG97. 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 paragraph 153.

Application of Principles to Specific Transactions

AG141. Public sector entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG144, 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.

Capital Transfers

AG142. This [draft] Standard defines a capital transfer as a transaction, that arises from a binding arrangement, where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes a compliance obligation on the entity, and 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 resource provider or a third-party beneficiary.

AG143. An entity shall recognize revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 88-105. An entity shall separately determine whether any inflows of resources from a capital transfer is to be recognized as an asset by applying paragraph 80, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 81-87. The carrying amount of any such liability is reduced as revenue is recognized.

Services In-Kind

AG144. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

AG145. Although recognition of services in-kind is not required by this [draft] Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG146. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the 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 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.

AG147. Public sector entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

- (a) Technical assistance from other governments or international organizations;
- (b) Persons convicted of offenses may be required to perform community service for a public sector entity;
- (c) Public hospitals may receive the services of volunteers;
- (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and
- (e) Local governments may receive the services of volunteer fire fighters.

AG148. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the 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. 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 AG147, the 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 entity would acquire if the services in-kind were not available.

AG149. 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 176, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

AG150. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

AG151. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider to the future economic benefits or service potential embodied in the item pledged. Entities

do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity, it is recognized as a gift or donation, in accordance with paragraphs AG165–AG169. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

AG152. Where 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 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 81-87, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans

AG153. Concessionary loans are loans received by 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. An entity considers whether any difference between the transaction 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.

AG154. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognizes the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the entity result in a compliance obligation. Where a compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability. As the entity satisfies the compliance obligation, the liability is reduced and an equal amount of revenue is recognized.

Measurement of Transferred Assets

AG155. As required by paragraph 108, transferred assets are measured at their transaction consideration as at the date of recognition. Inventories, property, plant, equipment, or investment property acquired through transactions without compliance obligations are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of paragraph 130. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at their transaction consideration as at the date of acquisition in accordance with paragraph 110 and the appropriate accounting policy.

Debt Forgiveness and Assumptions of Liabilities

AG156. 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 circumstances when a creditor forgives a liability, the local government decreases the carrying amount of the existing liability and recognizes an increase in net assets.

AG157. 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.

AG158. 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 AG6–AG8.

AG159. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG160. 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.

AG161. 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 20. As noted in paragraph 5, where 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 entity.

Bequests

AG162. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity 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.

AG163. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the transaction 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 entity receiving any assets. The 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 entity.

AG164. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG167. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

Gifts, Donations, including Goods In-kind

AG165. 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 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 AG144–AG150.

AG166. Goods in-kind are tangible assets transferred to an entity in a transaction without 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.

AG167. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the transaction consideration of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.

AG168. 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.

AG169. On initial recognition, gifts and donations including goods in-kind are measured at their transaction 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 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.

Licensing

AG170. A license establishes a 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:

- (a) Software and technology;
- (b) Motion pictures, music and other forms of media and entertainment;
- (c) Franchises; and
- (d) Patents, trademarks and copyrights.

AG171. In addition to a promise to grant a license (or licenses) to a 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 71). As with other types of binding arrangements, when a binding arrangement with a resource provider includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 68-77 to identify each of the compliance obligations in the binding arrangement.

AG172. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 73–77, an entity shall account for the promise to grant a license and those other promised goods or services together as a single compliance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

- (a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) A license that the purchaser or third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the purchaser or third-party beneficiary to access content).

AG173. If the license is not distinct, an entity shall apply paragraphs 88–98 to determine whether the compliance obligation] (which includes the promised license) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG174. 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 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 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.

Determining the Nature of the Entity's Promise

AG175. 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 resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the resource provider has rights (see paragraphs AG176–AG177);
- (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 AG175(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 72).

AG176. Factors that may indicate that a 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 resource provider related to the intellectual property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG177. An entity's activities significantly affect the intellectual property to which the resource provider has rights when either:

- (a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) The ability of the 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.

AG178. Accordingly, if the intellectual property to which the 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).

AG179. If the criteria in paragraph AG175 are met, an entity shall account for the promise to grant a license as a 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 97(a)). An entity shall apply paragraphs 99–105 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG180. If the criteria in paragraph AG175 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 resource provider. This means that the 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 compliance obligation satisfied at a point in time. An entity shall apply paragraph 98 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).

AG181. An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

- (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its 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 compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the resource provider that the license transferred meets the specifications of the license promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG182. Notwithstanding the requirements in paragraphs 120–122¹²³, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

- (a) The subsequent sale or usage occurs; and
- (b) The compliance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG183. The requirement for a sales-based or usage-based royalty in paragraph AG182 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 resource provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG184. When the requirement in paragraph AG183 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG182. When the requirement in paragraph AG183 is not met, the requirements on variable consideration in paragraphs 114–123 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG185. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG186. 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 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.

AG187. 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 resource provider's request (a put option).

A Forward or a Call Option

AG188. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the 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 43, *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 AG190 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.

AG189. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG190. 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 resource provider. The entity shall recognize the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG191. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

AG192. If an entity has an obligation to repurchase the asset at the 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 resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the 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 43.

AG193. To determine whether a 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 resource provider has a significant economic incentive to exercise the put option.

AG194. If the 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 AG98–AG105.

AG195. 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 AG190.

AG196. 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 resource provider does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG98–AG105.

AG197. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG198. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

AG199. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end 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.

AG200. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

- (a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a 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

AG201. A bill-and-hold arrangement is a binding arrangement under which an entity bills a 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 resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG202. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 98). 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 resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the 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 resource provider over the resource provider's asset.

AG203. In addition to applying the requirements in paragraph 98, for a resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

- (a) The reason for the bill-and-hold arrangement must be substantive (for example, the resource provider has requested the arrangement);
- (b) The product must be identified separately as belonging to the 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 resource provider.

AG204. 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 compliance obligations (for example, for custodial services) in accordance with paragraphs 68-77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 134-144.

Disclosure (paragraphs 168-194)

AG205. An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

AG206. In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45-47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

Disclosure of Disaggregated Revenue (paragraphs 180-181)

AG207. Paragraph 180 requires an entity to disaggregate revenue from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements. Some entities may need to use more than one type of category to meet the objective in paragraph 180 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG208. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

- (a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

- (b) Information regularly reviewed for evaluating the financial performance of segments; and
- (c) Other information that is similar to the types of information identified in paragraphs AG208(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG209. Examples of categories that might be appropriate include, but are not limited to, all of the following:

- (a) Type of compliance obligation;
- (b) Geographical region (for example, country or region);
- (c) Market or type of purchaser resource provider (for example, government and non-government resource providers);
- (d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);
- (e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements);
- (f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);
- (g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and
- (h) Revenue earned from the provision of goods or services to third-party beneficiaries.